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Sheri Berman and Kathleen McNamara
on Central Banks and Democracy, and
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Bank on Democracy

Why Central Banks Need Public Oversight

Sheri Berman and Kathleen R. McNamara

In January, a new leading actor strode onto the world stage. More powerful than most national governments and responsible for helping to set the economic and political course for 280 million people and almost a quarter of the global economy, the European Central Bank (ECB) is notable for something more sinister as well—its almost complete freedom from democratic oversight and control.

The ECB represents the culmination of two trends: European integration and central-bank independence. But while the potential drawbacks of the first trend have been analyzed endlessly, those of the second have gone almost entirely unremarked. Leaving central banks undisturbed by their host governments has become an integral part of the neoliberal catechism. In fact, however, the case for removing such powerful institutions from democratic oversight is unproven. Allowing it to rest unchallenged both damages democracy and begs important questions about who the winners and losers of economic policy should be.

The ECB will be responsible for setting interest rates and managing Europe's new currency, the euro. The bank's decisions will affect economic development across an entire continent and help determine whether European integration succeeds. Yet the officials who make these decisions will not have to answer to the publics whose jobs and quality of life hang in the balance. The bankers will not even have to give Europeans much basic information on how and why bank decisions are made. To make matters worse, the bankers' priorities are essentially set in stone; the Maastricht Treaty itself gives the ECB the narrow mandate of keeping prices stable.

All this runs counter to a recent and much-vaunted global trend: the transfer of power from authoritarian elites to democratic publics. Few have protested this inconsistency, however. In a perverse twist, the insulation of central banks from popular control has become one of the

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chief contemporary signifiers of liberalism. In a secular version of Lent that is now the rage from Europe to Latin America to the post-Soviet bloc, democratic governments are proving their faith and virtue by giving up something dear—the ability to control their countries' economic destinies.

Exemplifying this trend, more countries increased the independence of their central banks during the 1990s than during any other decade since World War II. The wave swept five continents, engulfing countries as diverse as Albania and Sweden, Kazakhstan and New Zealand. Crucial support has come from an ideological consensus among the world's business and economic elites. The *Financial Times*, for example, has argued that the arguments "for central bank independence appear overwhelming," while *The Economist* has declared that "The intellectual case for independent central banks [has been] more or less won." Yet the arguments used to justify removing monetary policy from democratic control do not survive close scrutiny.

NO FREE LUNCH

Advocates of central-bank independence defend it in two related ways. The first is theoretical and justifies treating monetary policy differently from other kinds of policy because of its supposed special characteristics. The second is practical and justifies treating monetary policy differently because so doing supposedly produces important economic benefits. Neither argument holds up.

According to supporters of central-bank independence, monetary policy cannot be entrusted to normal policymaking processes because it is complicated and requires a disciplined, long-term perspective to succeed. Since ordinary people and politicians cannot understand the intricacies of what central banks actually do, the argument goes, they cannot adequately weigh particular policy choices. They are also unable to think far into the future or accept pain now for gain later. (This latter point relates to what economists refer to as the "time inconsistency" problem.) So decision-making in this area needs to be handed over to wise men who will do for the people what they cannot do for themselves. As Alan S. Blinder, a Princeton economist, recently put it,

> First, . . . monetary policy is a somewhat technical field where trained specialists can probably outperform amateurs from the political realm. Second, the effects of monetary policy take a long time to filter through the economy, so good policy decisions require patience and a long time horizon—two attributes not normally associated with politicians. Third, the pain of fighting inflation (higher unemployment for a while) comes well in advance of the benefits (permanently lower inflation). So short-sighted politicians with their eyes on elections would be tempted to inflate too much.

At first glance, these arguments appear plausible. Monetary policy is indeed complicated and confusing; politicians and publics do often view it with a short-term perspective; and political actors do frequently shrink from prescribing bitter medicine for fear of paying an electoral price. But these qualities characterize almost all policy areas. Indeed, the more important an issue is, the more likely these conditions are to hold. Isn't health care incredibly complicated? Who really is qualified to decide how much funding should go to different types of medical

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research? Does anybody truly believe that members of Congress or their constituents fully understand the various plans being bandied about for changing Social Security? How many Americans even understand how the present system works? Presumably most would agree that decisions about something as important as Social Security should be made to benefit all Americans rather than a narrow lobby like the American Association of Retired Persons. Add welfare reform, tax policy, foreign policy—the list is endless. The sad fact is that policymaking in countless areas is often driven by short-term considerations or by the needs of powerful but parochial special interest groups. Monetary policy is simply not that distinctive and need not be treated differently. Blinder is honest enough to admit this squarely and bold enough to ask whether much national policy should not therefore be delegated to independent technocrats. Anyone unwilling to go so far should be prepared to let monetary policy be just as subject to democratic control as everything else.

The second rationale for central-bank independence is strictly practical. Such independence, we are told, produces better overall economic outcomes. In return for freedom from political control, central bankers will provide their societies with major, widespread economic benefits—in theory. But here too the evidence is unconvincing. Reflecting an almost universal finding, Alberto Alesina, a Harvard political economist, and Lawrence H. Summers, his erstwhile colleague turned deputy treasury secretary, noted in a 1993 survey that central-bank independence "has no measurable impact on real economic performance." In plain English, taking control of a country's central bank away from politicians and giving it to technocrats is likely neither to raise economic growth nor to lower unemployment.

The sole area where Alesina, Summers, and others have detected a possible boon from central-bank independence is in fighting inflation. Even this finding, however, is not as powerful as it appears at first glance. To begin with, the strength of the correlation between central-bank autonomy and lower inflation depends on the criteria used to measure independence, the time period chosen, and—especially—the countries included in the sample. If one looks at developing countries as opposed to advanced industrial ones, the positive impact of central-bank independence on inflation simply disappears. This should hardly be surprising, both because politics in developing countries is often guided by informal rules rather than laws and formal procedures and because such countries lack the range and depth of institutions necessary for full policy implementation and coordination. Even in advanced industrial countries, where the correlation between central-bank independence and lower inflation seems strongest, the case is not clear-cut. Some argue, for example, that the correlation is spurious. Thus Adam Posen of the Institute for International Economics claims that "differences in central bank autonomy and reputation are not the sources of inflation differences among the advanced industrial countries. . . . [A]ll the published arguments used to trace a causal link between [central bank independence and low inflation] are not borne out by economic reality." What really matters in the long-term struggle against inflation, Posen finds, is a strong financial sector that is interested in price

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stability and that is willing and able to influence policymaking to get it. Central-bank independence and lower inflation, in this view, are linked not because one causes the other but rather because both are caused by the political effectiveness of a particular coalition of interests.

Other scholars have come to similar conclusions, noting that independent central banks have little positive long-term impact on inflation unless backed by a societal consensus on the need for stable prices. Students of Germany, for example, have argued that the real source of the Bundesbank's effectiveness is not its statutory independence but rather widespread public acceptance of the need to make fighting inflation a primary economic-policy goal.

The evidence about the economic impact of central-bank independence, therefore, is decidedly mixed. Such independence has not been shown to produce higher growth or lower unemployment, and its effect on inflation is debatable. Moreover, during economic downturns, independent central banks may actually make things worse. Many studies have, for example, linked greater central-bank independence to larger drops in output during recessions. Furthermore, as the economists Sylvester C. W. Eijffinger and Jakob De Haan note, "most studies suggest that central bank independence is associated with higher disinflation costs." In light of all this, one might think that economists and other elites would pause before insisting that central-bank independence is indispensable. Yet the opposite is true. Seizing on the fact that central-bank independence is on average associated with lower inflation (which most advocates of independence cherish) but has few apparent effects (and therefore costs) in other economic areas, economists have concluded that, in the words of Vittorio Grilli, Donato Masciandaro, and Guido Tabellini, "having an independent central bank is almost like having a free lunch." But as economists more than anyone else should know, there is no such thing as a free lunch.

IT'S THE DEMOCRACY, STUPID

What has been overlooked in the rush to make central banks independent is the fact that such political insulation does come at a price—although not the kind easily measured by slide rules or calculators. By turning over monetary policy to unelected and often unaccountable technocrats, countries surrender much control over their economic fates. Even if the practical benefits of doing so were clear, abdicating such authority would be a grave decision, worth taking only after full national debate. Since the benefits are at best questionable, fully insulating monetary policy from government control regardless of the particular national or economic context could have dire consequences.

The great conceit of the early post–Cold War era was that all good things came together in one package: Free politics (democracy) and free markets (capitalism) were complementary, and the formula for lasting success was open to all. As the world economy has faltered in the late 1990s, however, many have begun to think that these two halves of the liberal order may in fact pull in opposite directions. In both developed and developing countries, more and more people see globalization as a threat and believe they are paying too high a price to satisfy the demands of international capital and

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finance. Given this backdrop, additional and largely unnecessary losses of popular sovereignty would be counterproductive or even dangerous.

Globalization has played a large role in convincing many countries to free their central banks from political control. Powerful financial and business elites have a greater interest in conservative monetary policy and price stability than other groups like workers, and countries have crafted policies to satisfy the demands of highly mobile international and domestic investors. As Sylvia Maxfield of the Harvard Institute for International Development has put it, "Foreign investors read central bank independence as a signal of the strength of domestic proponents of sound monetary policy, both within the government and among domestic interest groups, with whom the investors might implicitly or explicitly ally in an effort to influence policy."

This type of dynamic is hardly restricted to developing countries; concerns about credibility drove the decision to make the ECB the most independent central bank in the world. The extreme independence of the ECB is meant to reassure financial and business elites that price stability will trump other economic goals and that Europe's economic policy will be appropriately insulated from the demands of labor and other domestic interest groups. The decisions to free Europe's central bank from political control and to focus narrowly on fighting inflation, in other words, were not "technical" or "apolitical," as most advocates of independence argue. Rather, as with all difficult policy choices, they involved painful tradeoffs that will benefit some more than others.

The plans for the bank were drawn up during a period of low inflation combined with rising unemployment and slow growth in Europe—hardly conditions under which an unprecedented degree of central-bank independence and a narrow focus on price stability are obviously correct prescriptions. An increasing number of European politicians have argued that broadening the mandate of the ECB to include growth and employment would help increase the bank's legitimacy—and that of the European Union more generally—without reigniting inflation. Yet these concerns are scorned rather than scrutinized because the Maastricht Treaty states that the ECB cannot seek or take instructions from any EU member government. Wim Duisenberg, the ECB's head, recently remarked that while it was "normal" for politicians to voice their thoughts about monetary policy, it would be "abnormal if those suggestions were listened to." Worse, the ECB's statutes and mandate can be modified only by the unanimous consent of all member states. Even the mighty Bundesbank does not enjoy such freedom; the law governing it can be changed by a simple parliamentary majority.

Adding insult to injury, the ECB's regulations require practically no transparency at all. While developing nations are being told by the West that openness and transparency are indispensable elements of well-functioning modern economies, some of the most advanced industrial nations are walling off crucial economic decision-making processes from public scrutiny. As Joseph Stiglitz, the chief economist at the World Bank, has noted, "transparency—openness—is now recognized as a central aspect of democratic

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processes. There cannot be effective democratic governance without information. Yet central banks continue to operate in secrecy." There are clearly some good reasons for closed deliberations, such as the difficulties of governing the eurozone collectively if national central-bank governors' positions on sensitive topics were revealed. But the existing setup smoothes the bankers' dealings with one another at the expense of public trust. It will also exacerbate tensions between European monetary policy and national economic policies and cycles.

As Talleyrand famously remarked of a Napoleonic-era covert action, this is worse than a crime, it is a blunder—and a blunder that may well come back to haunt the advocates of European unity who pressed so hard for the ECB in the first place. European integration has thus far been primarily driven by elites. European publics have been skeptical about losing sovereignty and about the generally undemocratic nature of European institutions. The ECB will be one of the most important of these institutions, and its decisions will have major consequences for Europe's economic and political life. Even when times are good, some people will pay significant costs because of choices the ECB makes; when times are bad, the some will become the many, and anger will grow. If the bank's decision-making processes were reasonably transparent and open to democratic oversight, the pain could perhaps be explained and justified. Under the current regime, however, bitter and restive publics may get nothing but dismissive hauteur. The result will be further widespread alienation from the entire European project.

What advocates of the ECB in particular and economists in general seem to have forgotten in the rush for economic efficiency is the power and import of democracy. The essence of democracy is not primarily the outcomes it produces but the process by which those outcomes are reached and legitimated. True democrats believe that government should be not only of and for the people but also by them. Even the most thoughtful advocates of central-bank independence seem to have forgotten this—something captured by the tone Blinder uses to describe the differences between decision-making at the Council of Economic Advisors and at the "apolitical" Federal Reserve. In the former, he writes,

> debate quickly turns to such cosmic questions as whether the chair of the relevant congressional subcommittee would support the policy, which interest groups would be for it and against it, . . . [and how it] would play in Peoria. . . .
>
> At the Federal Reserve, on the other hand, . . . policy discussions are serious, even somber, and disagreements are almost always over a policy's economic, social, or legal merits, not its political marketability. . . . The attitudes of particular legislators, interest groups, or political parties toward monetary policy are rarely mentioned, for they are considered irrelevant.

Such disdain for democratic policymaking has familiar echoes. Tocqueville famously questioned America's ability to conduct a successful foreign policy because of the tendency of a democracy to "obey its feelings rather than its calculations and to abandon a long matured plan to satisfy a momentary passion." George F. Kennan went so far as to advocate the "use of the

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principle of professionalism in the conduct of foreign policy" across-the-board for fear of decision-makers "beholden to short-term trends in public opinion . . . [and] what we might call the erratic and subjective nature of public reaction to foreign policy questions."

The skeptics, however, have been proven wrong. Time and again, in wars hot and cold, democracy as a system has consistently beaten its competitors—not despite having decision-makers accountable to their publics, but largely because of it. Openness and democratic control sometimes produce mistakes and embarrassment, but on balance they also produce moderation, success, and—most important—legitimacy. These are precisely the qualities that Europe's economic policy needs in the decades ahead. Unless the continent's elites and central bankers can bring themselves to trust their publics more, however, these may be qualities in short supply.

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Dreams of the Eurasian Heartland

The Reemergence of Geopolitics

Charles Clover

Few modern ideologies are as whimsically all-encompassing, as romantically obscure, as intellectually sloppy, and as likely to start a third world war as the theory of "geopolitics."

Popularized at the beginning of the twentieth century by an eccentric British geographer, Sir Halford Mackinder, geopolitics posits that the earth will forever be divided into two naturally antagonistic spheres: land and sea. In this model, the natural repository for global land power is the Eurasian "heartland" —the territory of the former Russian empire. Whoever controls the heartland, wrote Mackinder, will forever seek to dominate the Eurasian landmass and ultimately the world.

Unsurprisingly, this theory of geopolitics has not gone unnoticed in the heartland itself. Today, in the shadow of the Kremlin's spires, geopolitical theory has a fast-growing set of devotees. Many Russian intellectuals, who once thought their homeland's victory over the world would be the inevitable result of history, now pin their hope for Russia's return to greatness on a theory that is, in a way, the opposite of dialectical materialism. Victory is now to be found in geography, rather than history; in space, rather than time.

A geopolitical theory called Eurasianism has become the common focus of Russia's "red-brown" coalition—the alliance of ultra-left and ultra-right politicians who together control close to half of the Duma (Russia's lower house of parliament) and who grow stronger each day, as Russia's economic crisis radicalizes the country's long-suffering population.

In its milder form, Eurasianism simply stresses Russia's uniqueness and argues that Russia need not Westernize in order to modernize. But in its hard-line version, the movement envisions the Eurasian heartland as the geographic launch pad for a global anti-Western movement whose goal is the ultimate expulsion of "Atlantic" (read: "American") influence from Eurasia.

Followers of this hard-line strain include the leaders of the Communist Party, which is by far the largest political organization in Russia today. Gennadi Zyuganov, its chairman, has just published a geopolitical manifesto, *The Geography of Victory*, in

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which he abandons anything resembling traditional communist doctrine. "We live in an era where geopolitics is literally knocking at the door, and ignoring it would be not just a mistake, but a crime," writes Zyuganov. The only time Marx surfaces in the book is in quotations meant to reveal that he too was a geopolitician.

Other radical political parties, such as Vladimir Zhirinovsky's Liberal Democratic Party (the LDPR, which is neither liberal nor democratic), have also climbed aboard the geopolitics bandwagon. Their rantings cannot be ignored; the LDPR dominates the geopolitics committee in the Duma and competes with the more liberal international affairs committee to be the house's voice on Russian foreign policy.

Outside the legislature, Russia's Defense Ministry and military elite have also caught Eurasian fever. Some commentators even find geopolitical sympathies in the policies of Russia's enigmatic new prime minister, Yevgeni Primakov. His policies fit the Eurasianist doctrine so neatly that it is hard not to view Primakov as one of the movement's backers—although he has never publicly stated his position on the theory.

SLEEPING WITH THE ENEMY

The widespread success of Eurasianism is thanks in part to its all-encompassing, hybrid character. In the skilled hands of its careful ideologues, Eurasianism has succeeded in reconciling the often contradictory philosophies of communism, religious orthodoxy, and nationalist fundamentalism. Eurasianism therefore manages to be imperial without being nationalistic, messianic without being overtly chauvinistic. It has become an umbrella philosophy, absorbing all that is radical in the bubbling cauldron of post-Soviet political thought. Eurasianism, then, may be Russia's fabled "third way," a compromise between left- and right-wing extremes—and yet far from the center in its own right.

If Eurasianism seems familiar, it is no coincidence. The theory is a direct descendant of the Slavophile movement of the nineteenth century, now retooled for the 21st. Cribbed from Mackinder and born in 1921 with the publication of historian Peter Savitsky's *Exodus to the East*, Eurasianism seeks to establish Russia's unique identity as distinct from the West. Rather than emphasizing the cultural union of all Slavs (as the Slavophiles did until the idea fell apart amid the Polish uprisings of the 1860s), Eurasianism looks south and east and dreams of fusing Eurasia's Orthodox and Muslim populations into one.

Eurasianism entered the post-Soviet world through the pages of the opposition newspaper *Den'* (Day), which was created in 1990 and changed its name to *Zavtra* (Tomorrow) after being closed by the authorities in 1993. In the eight years since, the editor, Aleksandr Prokhanov, and his former deputy, Aleksandr Dugin, have turned Eurasianism into a rallying point for Russia's right- and left-wing malcontents.

"The Eurasianists transformed the contradictions between white [ultraconservative] and red on the basis of a broad civilizational project," said Dugin in his office across from Moscow's Novodevechy monastery. "Nobody else except the Eurasianists presented such a project, which dates from the 1920s but is just as operative in the 1990s. The other tendencies—the Slavophiles, the Westerners, the left and right, red and white—these

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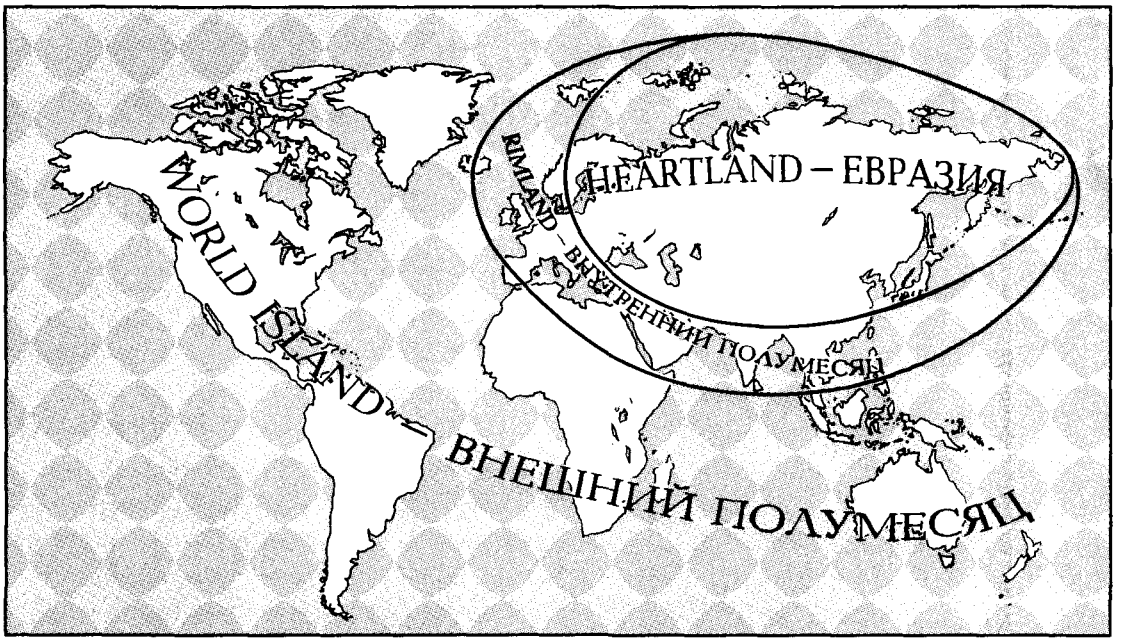

FROM *The Basics of Geopolitics*, AS REDRAWN BY IB OHLSSON FOR FOREIGN AFFAIRS

are all exhausted, they are for nostalgists, like collecting stamps or old cars."

Since leaving *Zavtra,* Dugin has become the editor of a journal called *Elements: Eurasian Survey* and works as an adviser to the Communist speaker of the Russian Duma, Gennadi Seleznev. He took center stage in the Eurasianist movement with his 1997 book, *The Basics of Geopolitics: Russia's Geopolitical Future*, which he wrote with the help of Russia's Military Academy of the General Staff. *The Basics of Geopolitics* takes Mackinder's idea of the geopolitical opposition between land powers and sea powers one step further, positing that the two worlds are not just governed by competing strategic imperatives but are fundamentally opposed to each other culturally. The antagonism between land and sea, for Dugin, parallels the East-West divide. Land-based societies, he theorizes, are attracted to absolute value systems and tradition, while maritime societies are inherently liberal.

On the strategic front, Dugin suggests that an anti-Western alliance of Russia, Japan, Germany, and Iran, based on their shared rejection of the West (ignoring the fact that they are not all land-based), would be capable of expelling American influence from the continent. Notwithstanding the fact that such an alliance will seem utterly implausible to Western readers—as will the counterfactual claim that Germany and Japan are not "Western" countries—some of Dugin's suggestions appear to have anticipated actual Russian policy vectors. For instance, he recommends turning over the disputed Kuril Islands to Japan as a step toward building an alliance. It turns out that during the autumn of 1998 just such an idea was mooted to the Japanese. Dugin's ideas have also foreshadowed Yeltsin's calls for a Moscow-Berlin-Paris axis and Primakov's initiatives toward Iran and Iraq (which began while he was foreign minister). The correlation between Dugin's ideas and those of the Russian establishment is too stark to be ignored.

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BIG RED

While Dugin and Prokhanov have emerged as Eurasianism's main ideologues, the movement's greatest practitioner is Gennadi Zyuganov. Zyuganov has used Eurasianism to reinvent the Communist Party, and he has been fantastically successful in doing so. By combining nationalism, religious orthodoxy, and Marxism, Zyuganov has outflanked nationalists to win the radical vote on both sides of the political spectrum. And his Communists' strength in the Duma is likely to grow in the next elections as popular disgust with mainstream politics drives voters toward the extremes, both of which, thanks to Zyuganov's strategy, now lead back to the Communists.

Zyuganov has bridged the gap between white and red in Russian society, first by linking Russia's "national idea" to popular traditions and Russian Orthodox Christianity and then by folding these back into communism. In his 1995 book, *Za Gorizontom* (Beyond the Horizon), Zyuganov argues that the traditional Russian idea of *obshina* (community) and the Orthodox doctrine of *sobornost* (communitarianism)—both of which endorse collective property ownership and communal decision-making—reveal that communism has actually been a theme in Russian society throughout history.

Zyuganov the Eurasianist is not just a Russian nationalist. He also models himself a Bashkir nationalist, a Tatar nationalist, and a fierce defender of Kalmykian Buddhism. Zyuganov's big idea is that all traditional societies are profoundly socialist ones. He has skillfully connected ethnic nationalism with communist notions of friendship between nationalities to sew all Eurasian ethnic groups together into an antiliberal, anti-Western patchwork of traditionalism and collectivism.

This strategy paid off in Zyuganov's 1996 presidential campaign. He won handily in non-Russian districts, thanks to his perceived support for self-determination and his opposition to the more exclusionary Russian nationalism of candidates such as Aleksandr Lebed.

If *Za Gorizontom* was Zyuganov's attempt to link communism with Russian-Eurasian traditions, his latest book, *The Geography of Victory*, is an even more ambitious attempt to correlate class struggle with East-West conflict. In this book, Zyuganov spells out the incompatibility of Western civilization and Russia. "Russia will never be bourgeois," argues Zyuganov. He goes on to claim that Russia has been subordinated by the West and has become a mere source of raw material—an unhappy predicament he considers analogous to the fate of the postcolonial East.

The root of the conflict, for Zyuganov, lies in the very character of Western civilization. He accepts that the political philosophy of the West is founded on the Athenian notion of democracy but argues that buried in this historical legacy is the Athenian division of society into citizens and slaves—a notion to which few Western democrats will admit. This split, according to Zyuganov, is a fundamental tenet of the Western world-view: the "Golden Billion" of the world's inhabitants living in the West "are free from obligation toward the rest of humanity, and [the] remainder usefully and justly play their role of resource-supplying appendages, reservoirs of toxic waste, and spaces for placing ecologically harmful production."

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ALL EYES EAST

To fight the global class struggle, Zyuganov warns, Russia must first consolidate the Orthodox world into a single bloc and forge close ties with radical Islam. "At the end of the twentieth century it is becoming more and more obvious that the Islamic way is becoming the real alternative to the hegemony of Western civilization," he writes. "Fundamentalism is understood as a return to the centuries-old national spiritual traditions, and can lead to very positive results. It is the return to moral norms of relationships between people . . . keeping intact society's morals."

This fixation on Russia's relationship with the East is typical of the Eurasianists. While they are imperialists, they are not traditional nationalists; in fact, most Eurasianists try to distinguish themselves from Russian nationalists by advocating alliances with Russia's Asian neighbors, especially its Islamic ones. As Prokhanov puts it, "The Eurasian idea is an idea of integration. Russian nationalism is the opposite of Eurasianism; the two ideologies are entirely incompatible. A purely ethnic [Russian] conception doesn't take into account Tatarstan or the Caucasus."

Talk of the East inevitably brings one back to Primakov, Russia's ranking Arabist and Asia hand turned prime minister. Orientalism—Primakov's speciality—is, of course, a Western science, the study, classification, and objectification of the East, and its very existence in Russia has, since the nineteenth century, helped to convince many Russians of their essential Westernness. But Orientalism, as practiced in Russia, has always betrayed an ambivalent relationship toward its subject and an inherent tension with the West. Many of Primakov's policies epitomize this ambiguity and neatly fit the Eurasianist program. Since the early 1990s, Primakov has been the driving force behind Russia's deepening relations with the pariah states of the Middle East, notably Iran and Iraq. Indeed, much of Zyuganov's *The Geography of Victory* could have been taken verbatim from Primakov's 1983 book, *The East After the Collapse of the Colonial System*. In it, Primakov describes how the imperialist West tries to control the postcolonial East through "asymmetrical independence," and he affirms the Soviet Union's historical role as the guardian of the East. Sixteen years after its publication, meanwhile, many in Russia now clearly view the country as an honorary member of the oppressed East.

"Today, Eurasianism is coming softly," Dugin relates. "Primakov's policy is Eurasianist policy. This is left-wing economic policies at home, helping Arab states abroad, orientation toward the East, helping traditional friends like Serbia, strengthening the integration of the former Soviet Union. This is Eurasianism, the policy of the heartland." This is the third way, and may well represent the future of Russian foreign policy.

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Painting China Green

The Next Sino-American Tussle

Elizabeth Economy

When Chinese Premier Zhu Rongji meets President Bill Clinton and Vice President Al Gore in Washington in April, the political climate is unlikely to be auspicious. The United States and China have reached a virtual stalemate on each of their traditional agenda items. Negotiations over China's entry into the World Trade Organization have stalled; China's continued drive for reunification with Taiwan offers little potential for fruitful dialogue; and human rights remains an elusive area for compromise. Yet the Sino-American relationship may well define global prosperity and military security in the 21st century. Allowing it to deteriorate risks a future punctuated by frequent military and economic conflicts and global instability. Both sides are eager to sustain the illusion of progress produced by the recent presidential summits. Hence, a centerpiece of the talks will likely be a subject viewed by both as uncontroversial—environmental cooperation.

Chinese and American leaders believe that the environment is a low priority issue with plenty of common ground. This is a big mistake. The environment is as complex as other key diplomatic issues, featuring differing interests and priorities, weak Chinese institutions, Chinese defiance of international agreements, and conflict between Congress and the White House over how to achieve U.S. aims.

Moreover, environmental issues have direct and serious implications for other U.S. foreign policy objectives. A warmer Sino-American relationship is stymied by China's reluctance to seek any middle ground with the United States until it is in firm control domestically. But the environmental problems created by China's recent economic boom now threaten the country's fragile social, political, and economic infrastructure. This is a momentous issue, and the question is: Is China's economic growth sustainable? Progress in bilateral discussions rests on China's resolution of it. Fleeing to the environment as a short-term foreign policy sanctuary will be treacherous if these complications are ignored. If fully understood and thoughtfully addressed, however, China's environmental problems offer a unique opportunity for the United States to cooperate with China on a vital issue.

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IT'S NOT EASY BEING GREEN

At first glance, the connection between China's environment and U.S. interests may appear tenuous. China is halfway around the world and unlikely to affect American air and water quality. But China's impact on the global environment should not be underestimated. China is one of the world's largest contributors to both global climate change (albeit a distant second to the United States) and ozone depletion. Its environmental practices affect Americans, from the rate of skin cancer to agricultural productivity to the frequency and scale of natural disasters. Moreover, China's need for grain has a direct and growing impact on U.S. farmers' interests. Beyond these direct effects, however, China's environmental policy influences the full range of U.S. interests in China: stability and security, human rights, democracy, and trade.

The environment is beginning to shape China's economic and political choices in important ways. The government reports large internal migrations due to scarcities, particularly of water. These migrants will complicate Beijing's efforts to manage the overpopulated coastal cities, with their millions of unemployed workers. Moreover, political conflict over land and water resources has become endemic, occasionally erupting into wide-scale violence. Over the past few years, for example, farmers from the Ningxia Autonomous Region have raided the more fertile land in Inner Mongolia for a favored plant. Thousands of police and local officials have been injured by the incursions. China's environmental practices alone may not challenge economic growth, but when combined with other trends, their consequences for social stability are magnified. A China in political and economic disarray cannot be a stabilizing force in the region or the world.

Regarding human rights, China's environment causes both concern and hope. China's environmental problems encroach on the most basic necessities of life: clean air and safe drinking water. Every year, 300,000 Chinese citizens die prematurely from air pollution–related diseases. In 1996, 50,000 people were affected by water pollution–related diseases. Sixty million people cannot get enough clean water for their daily needs. But U.S. politicians should also recognize environmental action's potential to propel political change. In the environment, perhaps more than in any other area, the Chinese government has opened the political space for dissent. Rather than devote significant financial resources to environmental protection (it spends slightly under one percent of GDP), the government has permitted the emergence of genuine nongovernmental organizations (NGOs) devoted to the environment. Helped by the media and the general public, which also discuss environmental policy with unusual openness, these NGOs criticize and expose the weaknesses of local environmental protection efforts. Grassroots environmental organizations have blossomed, many of them dominated by politically reform-minded Chinese intellectuals.

Finally, as the United States attempts to reduce its growing trade imbalance with China, it should not overlook the sale of technologies and products protecting the environment. The World Bank estimates that between 1995 and 2004, China will require about $100 billion of infrastructural investment in water conservation, treatment, and sanitation. The market for environmental goods and services, already estimated at around $4 billion, is growing

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AP/WIDE WORLD PHOTOS

The road to prosperity? Yangtze River flooding, 1998

rapidly. American companies, however, still lag far behind their Japanese competitors in market share.

CHINA'S FAUSTIAN BARGAIN

Chinese leaders know they have a problem. They also realize that it is not just an environmental issue but an economic and political one. They have gambled that the rate of economic growth will outpace the rate of environmental degradation and resource scarcity. But their development practices have produced a costly environmental disaster; it is clear to anyone living in China that economic growth has come at the expense of the environment. The country's overwhelming reliance on coal has resulted in some of the world's worst air quality and acid rain that is damaging one-third of Chinese agricultural land. Eighty percent of wastewater and sewage is dumped untreated into rivers and lakes; in 1997, China's Environmental Protection Agency announced that water quality had deteriorated in every single major river system during the previous year. Fully 86 percent of the water in rivers flowing through China's cities is considered unsuitable for drinking or fishing.

This damage is haunting China's economic growth. Economists estimate the cost of environmental degradation and resource scarcity to be 8 to 12 percent of China's GDP. According to the World Bank, water scarcity and pollution alone annually cost China about $14 billion in lost industrial output and about $24 billion in crop loss. The health costs of air pollution will skyrocket—reaching $98 billion by 2020.

Perhaps the most dramatic example of the costs of China's decision to trade the environment for economic growth was 1998's flooding of the Yangtze River. Official indifference and decades of poor environ-

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mental choices—failing to protect wetlands and clear-cutting forests for timber, farmland, and industrial development—contributed to the unrelenting floods, which killed more than 3,000 people, destroyed 5 million homes, and inundated 52 million acres of land. The economic losses are estimated at more than $20 billion.

In the race between development and the environment, Chinese leaders have bet on development. Either because it had no choice—since the regime's legitimacy is predicated on continued rapid economic growth—or because it has decided to see who will blink first, China has placed the burden of global environmental problems on the rest of the world. Issues such as global climate change and ozone depletion are more diffuse and long-term than China's current woes. Chinese officials have resisted devoting financial resources to problems that they could blame on industrialized countries, a philosophy best summed up as "For China to play, the world must pay."

THE SILVER LINING

Despite these obstacles, the silver lining of the April summit is that the environment may finally receive the attention it deserves. The danger lies in assuming that environmental discussions should provide no more than an easy photo opportunity for Gore and Zhu. The Clinton administration tends to settle for nonsubstantive policy "wins"—in the words of one official, "find[ing] the low hanging fruit"—rather than fighting for difficult new programs. Congress, in turn, blocks substantive initiatives by withholding funding without offering constructive alternatives. The United States cannot afford this repeat performance. China now stands on a precipice of change as steep as that in 1979, when the leadership launched its economic reform program. Since then, China has embarked on wholesale economic restructuring, including a national infrastructure program, that will not only determine its own economic and environmental future but will also affect the world's. Washington must acknowledge that changing Beijing's environmental performance will take several decades. As with other contentious issues in the Sino-American relationship, from intellectual property rights to control over weapons technology transfers, China's capacity to enforce its environmental agreements is constrained by bureaucratic and regional conflicts. The United States must act quickly if it is to influence China's choices.

First, Gore needs to incorporate businesses, foundations, and NGOs from both countries into the U.S.-China Forum on Environment and Development. The forum, which Gore inaugurated in April 1996, serves as the umbrella for cooperation between both countries' bureaucracies. The low level of funding to date—less than $10 million in 1997—has limited joint ventures to small-scale workshops on topics such as natural disaster relief, water usage, and energy efficiency. Introducing new actors into the forum will provide fresh sources of funding and expertise, organize the disparate efforts of environmental organizations in China, advance U.S. trade interests, and nonthreateningly support Chinese NGOs. Forum-sponsored projects should address both U.S. priorities like global climate change and Chinese domestic needs. Ventures could involve reforestation, energy efficiency, and renewable energy.

Second, the United States urgently needs to soften China's recalcitrance on global climate change. Chinese leaders resist even minimal voluntary limits on

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greenhouse gas emissions for fear that more significant future commitments will slow China's economic development. Since Congress is withholding funding for domestic global warming initiatives until it sees China and other developing countries move on this issue, the White House is desperate for progress. Yet it should resist the temptation to oversell any summit agreement. China's compliance will be weak because it lacks the will and capacity to address climate change, and the United States is bound to be disappointed. Instead, Washington should proceed along the two tracks that offer the best hopes for improving Beijing's performance. The bill proposed by Senators John Chafee (R-R.I.), Joseph Lieberman (D-Conn.), and Connie Mack (R-Fla.), which grants early action credit to companies that reduce greenhouse gas emissions, should be expanded to include actions undertaken in other countries. The administration should also refrain from high-profile demonstration projects unless they are funded by those whose business interests will profit. U.S. efforts should focus on activities with a long-term payoff, such as training Chinese officials and researchers in environmental planning and enforcement, rather than on projects with limited application elsewhere in China.

Third, it is time for Congress to clear the way for lifting sanctions on U.S. assistance programs to China imposed after Tiananmen Square. The U.S.-Asia Environmental Partnership, the Trade and Development Agency, and the Overseas Private Investment Corporation could all facilitate exports of environmental goods and services to China. For U.S. firms to compete, they need financial and organizational assistance. There is no rationale for maintaining sanctions that hurt only U.S. companies and limit American advancement of its own environmental interests.

GETTING IT RIGHT

Discord and distrust are hallmarks of the Sino-American relationship. Despite recent efforts by both U.S. and Chinese leaders to move beyond the current stalemate, little has been achieved. Domestic politics on both sides and weak institutions in China confound efforts to achieve compromise. Although both sides want China's emergence as a global power to proceed smoothly, neither is willing to forgo short-term interests for long-term gain.

In this rather bleak political climate, the environment offers a fresh start. Gore and Zhu have the opportunity to accomplish something significant. By addressing environmental protection Gore will also serve broader U.S. interests of human rights and democracy, U.S. business development, and international security. By influencing China's economic and environmental choices, the United States will fundamentally shape the China that will emerge in the 21st century. Ensuring that China becomes a constructive participant in the international system will take time. Progress on the environment, as on other issues, requires both sides to commit themselves to a long-term strategy of institution-building to enable China to meet its domestic challenges as well as its international obligations. This does not mean that the United States should allow China to ignore its commitments in the interim. But the United States is best served by engaging China and helping it develop the capacity to be a respected and effective international actor. America's interests in China are significant and growing. We should take the time to get the relationship right.

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Essays

The launch of the euro could mean the end of America's economic hegemony.

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America and Europe: Clash of the Titans?

C. Fred Bergsten

CONTINENTAL DRIFT

THE LAUNCH of the euro offers the prospect of a new bipolar international economic order that could replace America's hegemony since World War II. The global trading system has already been jointly run since the early days of the European Common Market, which enabled Europe to integrate its commerce and exercise power equivalent to that of the United States in that domain. Now Euroland will equal or exceed the United States on every key measure of economic strength and will speak increasingly with a single voice on a wide array of economic issues. The euro is likely to challenge the international financial dominance of the dollar. Moreover, the end of the Cold War has sharply reduced the importance of U.S. military might for Europe and pulled aside the security blanket that often allowed both sides to cover up or resolve their economic disputes for the greater good of preserving the anticommunist alliance.

Economic relations between the United States and the European Union will therefore rest increasingly on a foundation of virtual equality. The United States will either have to adjust to this new reality or conduct a series of rear-guard defensive actions that will be increasingly futile and costly—like the British did for many decades as their leadership role declined. The EU will either have to exercise

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positive leadership, which it now can do, or become highly frustrated at home and a spoiler abroad.

Partly as a result of these seismic shifts, transatlantic economic interdependence and joint responsibility for global leadership have grown rapidly for both economic superpowers. Europe and America therefore need to devise new strategies and institutional arrangements to manage both their bilateral economic relations and global economic issues. Such strategies can be constructed with or without a "common European foreign policy" that embraces traditional security issues; Europe itself has integrated far faster economically than it has politically. Japan will also be a partner in some elements of this collaboration. But until that country and the rest of Asia recover from their prolonged economic woes—which may take half a decade or more—transatlantic relations will be the crucial pivot for global as well as bilateral economic progress. And since Japan did not play a very forceful international role even prior to the Asian crisis, the timing or even the possibility of its full participation in the core leadership group remains highly uncertain.

The EU and the United States have yet to develop the required new approaches, however. Recent official discourse has focused instead on a range of narrow, highly technical, and even bureaucratic issues: bananas (which the United States as a country does not even directly export), testing procedures for pharmaceuticals, the appropriate representation of Euroland, which international committee should devise reform of the global financial system, and many other relatively minor matters. At their December summit, the two superpowers could agree only to consider new winemaking standards. Although the two sides need to address disputes over lesser issues—which are inevitable given their high levels of trade, finance, and investment—the gulf between policy requirements and operating reality is enormous.

Meanwhile, a long list of serious challenges remains unresolved. America and Europe are at loggerheads over global warming and energy policy. Despite extensive efforts, they have not resolved the bitter dispute over the extraterritorial impact of American foreign policy sanctions and only narrowly averted a collision over antitrust policy in the Boeing–McDonnell Douglas case. While many countries are still reeling from the global financial turmoil, the two economic superpowers snipe at each other about how to share its adverse

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effects on their own economies and about their competing regional initiatives in other parts of the developing world.

Their greatest failure, however, lies with the looming problems at the heart of the transatlantic economic relationship. America's trade and current account deficits will probably hit $300 billion in 1999. Any slowdown in the U.S. economy could trigger strong protectionist pressure from industries of central importance to Europe, as is already occurring in steel. In addition, the huge U.S. trade deficit and the likely worldwide shifts of capital into the euro could push the euro up sharply against the dollar in the near future. In turn, a stronger euro would hurt Europe's competitive position and seriously exacerbate its unemployment problem, while the weaker dollar would push U.S. prices and interest rates upward, igniting additional tensions across the Atlantic.

A U.S. economic slowdown could trigger protectionist pressures.

The bilateral relationship is thus drifting dangerously toward crisis. In addition, the global superpowers are only partially confronting several key systemic questions. On the monetary side, America and Europe, along with several key Asian countries, seem to be moving toward modest reforms in the "international financial architecture" to incorporate greater transparency in markets, more rigorous adherence to global financial norms, and modest improvements in International Monetary Fund (IMF) procedures. But the two superpowers have failed to propose, let alone implement, fundamental solutions to the unfolding financial crisis that could stabilize capital flows and the international monetary system.

There is little if any discussion of the momentous changes presaged by the creation of the euro—the biggest change in global finance since the dollar surpassed sterling to become the world's leading currency in the interwar period. There has been no U.S. willingness to even discuss Germany's proposals, now endorsed by the other key continental Europeans and Japan, to avoid the destabilizing currency gyrations that have been so disruptive over the past quarter-century. On trade matters, the EU has proposed a Millennium Round of negotiations at the World Trade Organization (WTO) to open markets further and improve the global trading system, while the United

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States will host the next WTO ministerial meeting later this year to plan international trade policy for the early 21st century. Until quite recently, however, the United States had resisted the European initiatives and has still offered no detailed proposals of its own. In short, there is no meeting of the minds on how to proceed on either trade or money.

Furthermore, the two sides have not worked out any strategy to respond to the politically potent backlash against globalization already observed around the world, including on both sides of the Atlantic. That resentment could severely impede progress on key specific issues, as Congress has already demonstrated with its refusal to authorize new trade negotiations and its reluctant support for the IMF. The result could be a gradual undoing of the international economic liberalization of the past two or three decades and a profound alteration in policy around the world.

Economic relations between America and Europe are approaching paralysis just when a daunting policy agenda and the advent of full bipolarity require new cooperative initiatives. Officials devote enormous attention to minutiae but none to common strategy or the requisite institutional mechanisms for tackling a growing number of acute challenges. They react on an ad hoc basis to virtually every problem that arises while failing to anticipate readily foreseeable obstacles. To be sure, extensive trade and investment ties limit the probability of the kind of blowups that the United States and Japan have experienced, and transatlantic diplomacy is skilled at keeping problems under wraps. But the economies of America and Europe, not to mention transatlantic relations and the world economy, remain at considerable risk.

THE TRADE DIMENSION

THE UNITED STATES is entering its eighth year of economic expansion. The economy is at full employment. Price inflation is nowhere to be seen. The underlying competitiveness of most American companies is strong. The government budget is in surplus. Although the trade deficit is soaring to record levels, much of this is due to America's superior growth and the Asian crisis; the dollar is not nearly as overvalued as in the mid-1980s.

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For these reasons it is particularly worrisome that American trade policy has been stalemated for four years. Despite the strength of the economy, opponents of globalization have successfully stymied any new trade negotiating authority since Congress approved the North American Free Trade Agreement (NAFTA) in 1993 and the Uruguay Round and WTO, which stemmed from the General Agreement on Tariffs and Trade (GATT), in 1994. Congress came close to blocking new U.S. contributions to the IMF—an imperfect but agreed instrument for responding to the global financial crisis that was sweeping the globe.

We know from history that trade policy tends to backslide toward protectionism unless liberalization continues moving forward. Fortunately, multilateral agreements in several key sectors—telecommunications services, information technology, and financial services—followed the Uruguay Round and maintained momentum for several years. (The United States was able to participate on the basis of residual authority from earlier legislation.) Since the failure of the Asia Pacific Economic Cooperation (APEC) forum's sectoral initiative and the flagging talks of the Free Trade Area of the Americas in 1998, however, no significant trade liberalization is under way anywhere in the world. Not surprisingly, the U.S. steel industry has entered the vacuum to seek widespread relief. Top administration officials expect a number of aggrieved bedfellows to follow shortly: machine tools, semiconductors, shipbuilding, textiles and apparel, some agricultural sectors, and perhaps others.

America's bipartisan trade policy of the past 65 years is at risk. This is especially true with a weakened administration that openly acknowledges a huge debt to organized labor for its surprise November 1998 "victory" and shrinks from reopening NAFTA-style splits within the Democratic Party as it eyes the elections in 2000. Even a modest slowdown in economic growth with small upticks in unemployment could tilt the balance toward protectionism. A relapse into recession could unleash substantial restrictive actions and even legislation.

This prospect threatens transatlantic relations for two reasons. First, many of the imports in question are from Europe itself: machine tools from Germany, sweaters and other woolens from Italy and the

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United Kingdom, and steel from throughout the region. Even U.S. restrictions on imports from other countries, such as steel from Russia or ships from South Korea, could inflame transatlantic relations if those restricted products are deflected toward European markets already hit by high unemployment and rising imports. The United States is already threatening to retaliate against European restrictions on banana imports and hormone-treated beef, while Europe is threatening to counteract those American steps as well as the U.S. sanctions on European companies operating in Iran and Libya.

Second, even the threat of American restrictions would seriously disrupt the "trade G-2" bilateral relationship between the United States and Europe that has managed global commercial policy for almost 40 years. Europe has spoken with a single voice on most trade matters since the creation of the original Common Market. Hence, it has been able to convert its status as the world's largest trading entity into effective negotiating equality with the United States on trade. The three major GATT liberalization initiatives—the Kennedy, Tokyo, and Uruguay Rounds—ultimately depended on agreements between Europe and America. The more recent sectoral agreements also hinged on their cooperation. A policy reversal by the United States now, or even its failure to overcome the recent stalemate, would undermine the partnership that has been so vital to both regions and to the world trading system.

To its great credit, the EU has recognized the pending threat and proposed a new "Millennium Round" to improve and expand the WTO system, restarting the liberalization process and strengthening the multilateral framework. Such a negotiation would include sectors, notably agriculture and services, that would greatly expand American exports. Indeed, the United States and the EU share an interest in moving as far as possible toward global free trade. They have already eliminated most of their own import barriers, so such an initiative would require the rest of the world to catch up with them, expanding their exports and creating high-paying jobs. The administration failed to endorse the EU strategy until very recently, however, and has still made no specific proposals of its own, despite its role as host of the next WTO ministerial meeting in late 1999. It has failed to convey to Congress or to the American public the huge

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opportunities for expanding U.S. exports, thereby undercutting the effort to win approval for any new negotiations.

Both sides now run the risk of drift and even paralysis in transatlantic trade policy—with potentially severe repercussions for the rest of the world. A slide into protectionism or even a failure to continue opening new markets would have a major impact on the global trading system. Could we then expect Asian economies, who depend on expanded exports to emerge from their deep recessions, to keep their own markets open? Would the transition economies in the former Soviet Union, Eastern Europe, and Asia stick to their liberalization strategies? With the backlash against globalization already evident everywhere, the ominous inward-looking protectionist and nationalistic policies that the world has rejected so decisively could reemerge once again.

A failure of transatlantic leadership would make such policy reversals particularly likely. The United States and the EU are the only economic superpowers and the only two regions enjoying reasonable economic growth. They created the GATT system and, more recently, the WTO. Despite their own occasional transgressions, they have nurtured and defended the system throughout its evolution over the past 50 years. While Japan has been important on a few issues and the developing countries played an encouraging role in the Uruguay Round, the Atlantic powers built and sustained the world trade order. Their failure to maintain that commitment would devastate the entire regime.

WHITHER THE DOLLAR?

ALTHOUGH THE transatlantic partnership in trade looks shaky, the financial dimension could prove even more disruptive as the euro becomes a major global currency. The euro now represents an economy almost as large as the United States and will be even larger when all 15 EU countries become members. It enjoys considerably larger trade flows and monetary reserves and can boast a far stronger external financial position as a sizable creditor area; in contrast, America's net foreign debt now approaches $2 trillion. As soon as the European Central Bank establishes its credibility, the euro will become a global

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financial asset and produce a portfolio diversification from dollars into euros by private investors and central banks that could ultimately reach $500 billion to $1 trillion.

The short-term problem is that the shift from dollars to euros could lead to a broad swing in the dollar-euro exchange rate. America's huge trade deficits are certain to produce a sharp fall in the dollar soon anyway, as they have done about once per decade since the early 1970s. The dollar fell 25 percent against the yen during the second half of 1998, and large dollar-yen swings have often preceded general gyrations in the dollar. Europe's unusually large trade surplus, by far its greatest since the mid-1980s, suggests that part of the dollar's decline will be against the euro. The portfolio shift into the euro could trigger this event and amplify the dollar's decline, already expected on the heels of America's trade deficit. Some European experts have predicted that the euro could rise by as much as 40 percent against the dollar. This is far more than the 10 percent or so that underlying economic conditions suggest but nonetheless is plausible, since currency markets often substantially overshoot their long-run equilibrium levels.

America needs a currency correction to reduce its trade deficit.

An excessive appreciation of the euro would hurt European competitiveness and push Europe's unemployment up at a time when the new governments throughout the region are determined to get it down. French officials and German industrialists are in fact loath to contemplate any further decline of the dollar, and some even believe that the dollar is now undervalued. Although they will have to accept some fall in the dollar to help correct America's excessive trade deficit and ease U.S. protectionist pressures, the exchange rate could again become another highly contentious issue across the Atlantic.

America obviously needs a currency correction to help reduce its trade deficit. In light of the lag between exchange-rate shifts and trade flows, the administration must hope that it will come sooner rather than later so that results, especially for industrial workers, show before the 2000 election. But a sharp general fall in the dollar could trigger latent inflationary pressures as long as the U.S. labor market remains tight. In turn, the dollar's decline could push up interest rates

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on inflation fears and foreign demand for higher returns in a falling currency. The stock market could drop and the impending slowdown could even tilt into recession. In short, the result could be an abrupt termination of America's "economic miracle."

The official American position states that the creation of the euro "is good for America if it is good for Europe." This is correct but banal, given the strong impact that the euro could have on the fundamental economic variables on both sides of the Atlantic. At a minimum, the two sides need to agree on a dollar-euro range that would reflect their respective domestic economic conditions. They should then devise new mechanisms, such as clear policy statements and direct intervention in the markets, to keep the rate from straying too far from these underlying fundamentals.

Renewed transatlantic currency instability, and especially a corresponding increase in U.S. interest rates, would also be poisonous for Asian and other emerging market countries trying to recover from the current crisis. Higher American interest rates would increase the cost of servicing their largely dollar-denominated foreign debts and send much-needed capital flows to America instead of to their own needy economies. A failure to manage the dollar-euro relationship effectively could thus have severe consequences worldwide.

These examples only begin to reveal the impact of the new monetary conditions on the United States and the world economy. The existence of a real competitor to the dollar means that the United States will have to pay higher interest rates to attract foreign capital to finance its large external deficits. Such competition will be healthy for the United States over the longer run by providing an incentive to avoid huge budget deficits and double-digit inflation; it might even eventually eliminate its trade imbalance. But the new competition could be quite uncomfortable for a while.

The new monetary environment will also substantially affect the world economy. The dollar and the euro will probably account for roughly equal shares of the great bulk of international financial assets. Prolonged misalignment between them will generate similarly skewed results for other countries that peg their units to either currency. Indeed, the dollar's sharp rise against the yen from 1995 to 1997 partially caused the Asian crisis, since most of the Asian currencies were effectively

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tied to the dollar. Moreover, misalignments among the major currencies contribute to disruptive protectionist pressures—with particularly large costs for developing and other heavily trade-dependent countries. In addition, considerable dollar-euro instability is likely even without prolonged misalignment because both superpowers will be continental economies with only a modest reliance on trade. Europe may be tempted to emulate America's periodic "benign neglect" of the exchange rate, especially given the European Central Bank's mandate to focus on price stability—but at the cost of hurting smaller countries more sensitive to instability.

As with trade, the two partners bear enormous responsibility for the global monetary system. Despite the high stakes, however, there is still no evidence of serious discussion, let alone strategic preparation or contingency planning against the risks outlined above. Why is there such a gap between the challenges of economic policy and the apparent responses of the United States and the EU? There is certainly no dearth of meetings. The leaders hold semiannual summits and lower-level officials get together constantly. The governments have been quite adept at declaring the launch of new transatlantic "dialogues," "partnerships," and "marketplaces," but the fundamental problems remain unresolved.

CLOSING THE GAP

THERE IS plenty of blame to go around for this lack of preparation. Europe has been preoccupied with regional initiatives, most notably with the euro but also with its enlargement of membership and reordering of regional finances. Its relentless expansion of trade association agreements now encompasses more than 80 countries and raises doubts about its commitment to nondiscriminatory multilateralism (despite its proposal for a Millennium Round). It has failed to design effective procedures to represent Euroland in international financial councils, with member states jealously defending their national prerogatives. This approach has frustrated Americans (and others) who had anticipated more streamlined decision-making. To paraphrase Henry Kissinger, the United States still does not know who to call in Europe when new crises hit. Europe's failure to effectively

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tackle foreign policy problems in its own backyard, notably Bosnia and now Kosovo, has invited disrespect and even ridicule over the prospect of real partnership.

As I noted above, however, the Europeans have begun to address the transatlantic and global agendas, such as proposing a Millennium Round to restart the trade momentum. They have also floated suggestions for improved exchange-rate management that could reduce the risks of misalignments and instability. Although detailed blueprints for implementing these ideas have yet to be laid out and caution still prevails, the Europeans have nevertheless tried to launch the process.

For its part, the United States has contributed to the lag in two key ways. First, the domestic backlash against globalization adversely affects relations with Europe and the rest of the world. Given its concern for lower-income Americans and the disruptions generated by rapid technological change, the administration has been curiously ineffective in improving the domestic adjustment programs and safety nets that could buffer trade-induced job insecurity and downward pressure on wages. It has failed to work out credible international initiatives on labor standards and environmental concerns, and neither the Republican-led Congress nor the business community has demonstrated the necessary flexibility to foster a political consensus on those key topics. Instead, the administration has mostly backtracked in the face of resistance rather than mounting an effective response, thereby undermining the prospects for tackling the economic challenges ahead. In short, it has failed to reestablish a political foundation for a sustainable foreign economic policy. Europe can understandably view the United States as inward-looking, just as Americans can level that charge at Europeans.

Second, the United States suffers from schizophrenia on the international front. On the one hand, it claims that Europe (and, during better times, Japan) should assert greater international responsibility and "share the burdens of leadership." On the other hand, its revealed preference is to try to maintain American dominance—even while asking others to pay the bill—and to exploit national differences within Europe whenever possible. (The Europeans are also no strangers to this; they continually talk of "a common foreign policy"

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but almost always act nationally.) One senses that some American officials resist European or other international ideas simply because they originated elsewhere. Whatever the cause, the administration has responded with studied indifference or outright hostility to constructive European trade and monetary proposals.

Regrettably, the Clinton administration has not replied to these European suggestions with any strategic visions of its own. Instead, it has reacted rather than led, whether the challenge was international (like the Asian financial crisis) or domestic (like the antiglobalization campaign). Such a lack of initiative, or even a thoughtful response, costs the United States dearly when confronting major developments such as the advent of a new economic superpower and a challenger currency. Even beleaguered Japan has endorsed Europe's calls for a Millennium Round and new approaches to currency management. The United States must realize that it will be outflanked on economic issues by the other two industrial giants if it continues its passivity.

An important part of the problem is bureaucratic buck-passing. Even though they eventually intervene when forced by events, monetary authorities on both sides of the Atlantic like "freely flexible" exchange rates because they can then blame currency problems on "the market" rather than themselves. Central banks in particular resist any policy framework that might place even the most limited constraints on their cherished independence. Moreover, neither America nor Europe is good at managing the interaction between monetary and trade issues—with different ministries in charge of each domain and little coordination between them—despite the obvious economic linkage.

MANAGED CARE

IT WILL NOT be easy to convert the current transatlantic malaise into an effective partnership. The United States faces significant domestic constraints, both economic and political, and Europe has a full "domestic" agenda. Governments always find it hard to take forceful preventive actions. The turf problems described above represent formidable practical barriers. So what can be done?

There is no need for new transatlantic "grand designs." Instead, the EU and the United States need to install effective working

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arrangements to address the serious problems ahead, both in their bilateral relations and in the joint challenges of global leadership that will become even more difficult in the coming months and years. They should take separate approaches to financial and trade issues.

The immediate goal on the monetary front is modest: to keep the dollar-euro exchange rate from straying so far from underlying economic fundamentals that it damages their economies, the transatlantic relationship, and the global system. America and Europe should retain flexible exchange rates as the basic paradigm but plan their management preemptively rather than deploying ad hoc measures too late, as at present. Monetary authorities could agree on a fairly wide range, perhaps 10 to 15 percent on either side of an agreed midpoint of € 1.00 = $1.25–$1.30, that would limit dollar-euro fluctuations. Such a band includes the startup rate of € 1.00 = $1.17 but prevents any significant dollar appreciation from that point or any dollar depreciation beyond its previous lows against the constituent European currencies. The authorities should announce their agreed range to convey clearly their official intention to the markets. A qualified majority vote of the EU Council of Economic and Finance Ministers could endorse such an incremental alteration in managing floating rates, while any major reform (like a return to fixed Bretton Woods–style parities) would need its unanimous approval.

Despite their modesty, such new arrangements would provide a helpful operational focus for America and Europe to agree on appropriate exchange rates. They would require close monitoring of the markets and creation of an effective mechanism for joint intervention to protect the ranges. They would also encourage some policy coordination, including of monetary policy, when the exchange rate moves to the edge of the very wide band and something more than direct intervention and official statements is required. They would help stabilize private capital flows by indicating the limits of official tolerance of fluctuations; the absence of government guidance often encourages contagion and destabilizes capital flows when a currency comes under speculative siege. The relative stability of the two major currencies (or three currencies, when Japan reaches comparable agreements for the yen with America and Europe) would be enormously helpful for other countries, who could then peg their unit to one of the key currencies without running the risk of prolonged misalignments.

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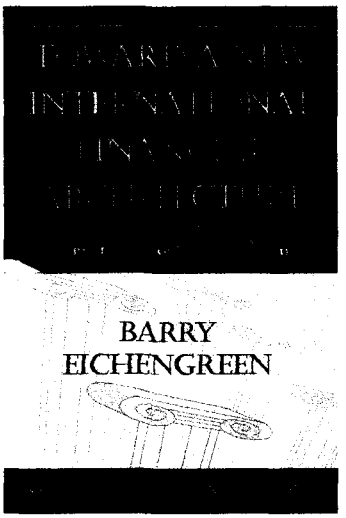

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Smith Richardson Foundation

Junior Faculty Research Grant Program

Description

The Smith Richardson Foundation's International Affairs Program is pleased to announce its annual grant competition to support junior faculty research on American foreign policy, international relations, international security, military policy, and diplomatic and military history. The Foundation will award at least three research grants of $50,000 each to support untenured, junior faculty engaged in the research and writing of a scholarly book on an issue or topic of interest to the policy community. These grants are intended to buy-out up to one year of teaching time and to underwrite research costs (including research assistance and travel). Each grant will be paid directly to, and should be administered by, the academic institution at which the junior faculty member works.

Procedure

An applicant must submit a research proposal no longer than ten pages to the Smith Richardson Foundation. This proposal must describe the problem that the proposed book will examine; explain how the project will contribute to our understanding of the problem; give an overview of the literature or body of knowledge on the question to be addressed by the project; list specific research questions that the book will answer; describe the analytical approach and sources of information that the researcher will use to answer the research questions; and describe the organization of the book that will result from the research. In addition to this proposal, the applicant should also include a *curriculum vitae*, a detailed budget explaining how the grant would be used, and a work timetable, including a date on which the applicant would begin to use the grant funds. Proposals must include a cover letter that summarizes the research in one or two paragraphs.

Project Criteria

Proposals will be evaluated based on the following criteria: (1) the relevance of potential analysis and findings to current and future foreign and security policy issues; (2) the potential of the project to innovate in the field and to contribute to academia or policy literature on the chosen topic; (3) the degree to which research questions and analytical methods are well defined; (4) the degree to which the project will develop valuable new data or information through field work, archival work, or other methods; and (5) the publication record of the applicant.

Eligibility

An applicant must have a Ph.D., preferably in Political Science, Public Policy, Policy Analysis, International Political Economy, or History; must hold a position as a full-time faculty member of a college or university in the United States; and must not have received tenure (or been denied tenure at the university where he or she will be employed during the administration of this grant). An applicant should explain how he or she meets all of these requirements in the cover letter to his or her research proposal.

Deadline

The Foundation must receive the proposal by **June 1, 1999.**

Please mail your proposal to: The Junior Faculty Research Grant Program
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Westport, CT 06880

The Foundation will notify an applicant of its decision by **September 21, 1999.**

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The scheme would be truly cooperative, based on initial proposals from Europe and Japan and worked out in detail with the United States. The outcome would be a concentric network of largely informal groups to manage international economic and monetary affairs: a core G-2 comprising the United States and Europe; a G-3 including Japan; the existing G-7, G-10, and G-22 to engage the next tier of key countries; and the global institutions, like the IMF, for formal implementation of the more far-reaching reforms. The involvement of the broader groups will ensure that the G-2 does not collude against the rest of the world and promote its own interests at everyone else's expense.

On trade, both sides must restart the process of global liberalization to counter the protectionist tide in the United States and the broader antiglobalization pressures everywhere. The United States and the EU should agree that the 1999 WTO ministerial meeting endorse the early launch of a Millennium Round. The negotiations should aim to produce tangible results every two or three years, to demonstrate progress and broaden market access in countries that still place large restraints on imports. They should also work out key issues of discord, including agriculture, competition policy, the implementation of the WTO rulings (which have been crucial in the banana case), and the rules governing regional arrangements. And they should address the environmental and labor issues that help drive the backlash against globalization.

On the institutional side, the G-2 relationship must be reinvigorated. It should again function as the core of the quadrilateral group with Japan and Canada, and then the full WTO itself. Such a strategy, along with more responsive U.S. domestic policies, should deflect enough protectionist pressure to get the two economic superpowers back on track in managing bilateral trade policy and their global responsibilities.

THE TRANSATLANTIC CENTURY?

NOT TOO long ago, there was much debate over whether the next hundred years would be the "Japanese" or "Asian" century. Now, that looks less likely. The "European century" seems a more likely prospect, or even a "second American century." Some observers have suggested that the 21st century will have a "trilateral" focus on Europe, Japan, and the United States. But the most plausible candidate for

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economic success and global leadership may instead be the transatlantic partnership. If the United States and the EU can begin to cooperate now as equal partners, even in the economic arena alone, they could resuscitate the vitality of their own relationship and provide effective global leadership. If they fail to do so they will continue to drift apart like tectonic plates, with severe consequences both for themselves and for the world economy.

The economic integration of Europe over the past half-century, culminating in the euro, represents history's most dramatic success in institutionalizing interdependence. It has also been the most sensational instance of nations voluntarily relinquishing their sovereignty in favor of international collaboration. It has assured peace as well as prosperity through judicious economic amalgamation. The countries of the North Atlantic will probably never choose integration as deep as that of Europe and are unlikely to heed the call of former Secretary of State James A. Baker III to keep pace with Europe's course. But the completion of the European economic evolution provides the basis for an effective transatlantic partnership that could herald a similar, if more modest, success story over the next 50 years. It could also presage the next major step forward in managing the world economy.

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The Lonely Superpower

Samuel P. Huntington

THE NEW DIMENSION OF POWER

DURING THE past decade global politics has changed fundamentally in two ways. First, it has been substantially reconfigured along cultural and civilizational lines, as I have highlighted in the pages of this journal and documented at length in *The Clash of Civilizations and the Remaking of World Order.* Second, as argued in that book, global politics is also always about power and the struggle for power, and today international relations is changing along that crucial dimension. The global structure of power in the Cold War was basically bipolar; the emerging structure is very different.

There is now only one superpower. But that does not mean that the world is *unipolar*. A unipolar system would have one superpower, no significant major powers, and many minor powers. As a result, the superpower could effectively resolve important international issues alone, and no combination of other states would have the power to prevent it from doing so. For several centuries the classical world under Rome, and at times East Asia under China, approximated this model. A *bipolar* system like the Cold War has two superpowers, and the relations between them are central to international politics. Each superpower dominates a coalition of allied states and competes with the other superpower for influence among nonaligned countries. A *multipolar* system has several major powers of comparable strength that cooperate and compete with each other in shifting patterns. A coalition

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of major states is necessary to resolve important international issues. European politics approximated this model for several centuries.

Contemporary international politics does not fit any of these three models. It is instead a strange hybrid, a *uni-multipolar* system with one superpower and several major powers. The settlement of key international issues requires action by the single superpower but always with some combination of other major states; the single superpower can, however, veto action on key issues by combinations of other states. The United States, of course, is the sole state with preeminence in every domain of power—economic, military, diplomatic, ideological, technological, and cultural—with the reach and capabilities to promote its interests in virtually every part of the world. At a second level are major regional powers that are preeminent in areas of the world without being able to extend their interests and capabilities as globally as the United States. They include the German-French condominium in Europe, Russia in Eurasia, China and potentially Japan in East Asia, India in South Asia, Iran in Southwest Asia, Brazil in Latin America, and South Africa and Nigeria in Africa. At a third level are secondary regional powers whose interests often conflict with the more powerful regional states. These include Britain in relation to the German-French combination, Ukraine in relation to Russia, Japan in relation to China, South Korea in relation to Japan, Pakistan in relation to India, Saudi Arabia in relation to Iran, and Argentina in relation to Brazil.

The superpower or hegemon in a unipolar system, lacking any major powers challenging it, is normally able to maintain its dominance over minor states for a long time until it is weakened by internal decay or by forces from outside the system, both of which happened to fifth-century Rome and nineteenth-century China. In a multipolar system, each state might prefer a unipolar system with itself as the single dominant power but the other major states will act to prevent that from happening, as was often the case in European politics. In the Cold War, each superpower quite explicitly preferred a unipolar system under its hegemony. However, the dynamics of the competition and their early awareness that an effort to create a unipolar system by armed force would be disastrous for both enabled bipolarity to endure for four decades until one state no longer could sustain the rivalry.

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In each of these systems, the most powerful actors had an interest in maintaining the system. In a uni-multipolar system, this is less true. The United States would clearly prefer a unipolar system in which it would be the hegemon and often acts as if such a system existed. The major powers, on the other hand, would prefer a multipolar system in which they could pursue their interests, unilaterally and collectively, without being subject to constraints, coercion, and pressure by the stronger superpower. They feel threatened by what they see as the American pursuit of global hegemony. American officials feel frustrated by their failure to achieve that hegemony. None of the principal power-wielders in world affairs is happy with the status quo.

The superpower's efforts to create a unipolar system stimulate greater effort by the major powers to move toward a multipolar one. Virtually all major regional powers are increasingly asserting themselves to promote their own distinct interests, which often conflict with those of the United States. Global politics has thus moved from the bipolar system of the Cold War through a unipolar moment—highlighted by the Gulf War—and is now passing through one or two uni-multipolar decades before it enters a truly multipolar 21st century. The United States, as Zbigniew Brzezinski has said, will be the first, last, and only global superpower.

NOT SO BENIGN

AMERICAN OFFICIALS quite naturally tend to act as if the world were unipolar. They boast of American power and American virtue, hailing the United States as a benevolent hegemon. They lecture other countries on the universal validity of American principles, practices, and institutions. At the 1997 G-7 summit in Denver, President Clinton boasted about the success of the American economy as a model for others. Secretary of State Madeleine K. Albright has called the United States "the indispensable nation" and said that "we stand tall and hence see further than other nations." This statement is true in the narrow sense that the United States is an indispensable participant in any effort to tackle major global problems. It is false in also implying that other nations are dispensable—the United States needs the cooperation of some major countries in handling any issue—and that American indispensability is the source of wisdom.

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Addressing the problem of foreign perceptions of American "hegemonism," Deputy Secretary of State Strobe Talbott set forth this rationale: "In a fashion and to an extent that is unique in the history of Great Powers, the United States defines its strength—indeed, its very greatness—not in terms of its ability to achieve or maintain dominance over others, but in terms of its ability to work *with* others in the interests of the international community as a whole. . . . American foreign policy is consciously intended to advance *universal* values [his italics]." The most concise statement of the "benign hegemon" syndrome was made by Deputy Secretary of the Treasury Lawrence H. Summers when he called the United States the "first nonimperialist superpower"—a claim that manages in three words to exalt American uniqueness, American virtue, and American power.

American foreign policy is in considerable measure driven by such beliefs. In the past few years the United States has, among other things, attempted or been perceived as attempting more or less unilaterally to do the following: pressure other countries to adopt American values and practices regarding human rights and democracy; prevent other countries from acquiring military capabilities that could counter American conventional superiority; enforce American law extraterritorially in other societies; grade countries according to their adherence to American standards on human rights, drugs, terrorism, nuclear proliferation, missile proliferation, and now religious freedom; apply sanctions against countries that do not meet American standards on these issues; promote American corporate interests under the slogans of free trade and open markets; shape World Bank and International Monetary Fund policies to serve those same corporate interests; intervene in local conflicts in which it has relatively little direct interest; bludgeon other countries to adopt economic policies and social policies that will benefit American economic interests; promote American arms sales abroad while attempting to prevent comparable sales by other countries; force out one U.N. secretary-general and dictate the appointment of his successor; expand NATO initially to include Poland, Hungary, and the Czech Republic and no one else; undertake military action against Iraq and later maintain harsh economic sanctions against the regime; and categorize certain countries as "rogue states," excluding them from global institutions because they refuse to kowtow to American wishes.

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In the unipolar moment at the end of the Cold War and the collapse of the Soviet Union, the United States was often able to impose its will on other countries. That moment has passed. The two principal tools of coercion that the United States now attempts to use are economic sanctions and military intervention. Sanctions work, however, only when other countries also support them, and that is decreasingly the case. Hence, the United States either applies them unilaterally to the detriment of its economic interests and its relations with its allies, or it does not enforce them, in which case they become symbols of American weakness.

At relatively low cost the United States can launch bombing or cruise missile attacks against its enemies. By themselves, however, such actions achieve little. More serious military interventions have to meet three conditions: They have to be legitimated through some international organization, such as the United Nations where they are subject to Russian, Chinese, or French veto; they also require the participation of allied forces, which may or may not be forthcoming; and they have to involve no American casualties and virtually no "collateral" casualties. Even if the United States meets all three conditions, it risks stirring up not only criticism at home but widespread political and popular backlash abroad.

American officials seem peculiarly blind to the fact that often the more the United States attacks a foreign leader, the more his popularity soars among his countrymen who applaud him for standing tall against the greatest power on earth. The demonizing of leaders has so far failed to shorten their tenure in power, from Fidel Castro (who has survived eight American presidents) to Slobodan Milošević and Saddam Hussein. Indeed, the best way for a dictator of a small country to prolong his tenure in power may be to provoke the United States into denouncing him as the leader of a "rogue regime" and a threat to global peace.

Neither the Clinton administration nor Congress nor the public is willing to pay the costs and accept the risks of unilateral global leadership. Some advocates of American leadership argue for increasing defense expenditures by 50 percent, but that is a nonstarter. The American public clearly sees no need to expend effort and resources to achieve American hegemony. In one 1997 poll, only 13 percent said they preferred a preeminent role for the United States in world affairs, while 74 percent said they wanted the United States to share power with other countries.

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AP/WIDE WORLD PHOTOS

Burning the American flag: in India . . .

Other polls have produced similar results. Public disinterest in international affairs is pervasive, abetted by the drastically shrinking media coverage of foreign events. Majorities of 55 to 66 percent of the public say that what happens in western Europe, Asia, Mexico, and Canada has little or no impact on their lives. However much foreign policy elites may ignore or deplore it, the United States lacks the domestic political base to create a unipolar world. American leaders repeatedly make threats, promise action, and fail to deliver. The result is a foreign policy of "rhetoric and retreat" and a growing reputation as a "hollow hegemon."

THE ROGUE SUPERPOWER

IN ACTING as if this were a unipolar world, the United States is also becoming increasingly alone in the world. American leaders constantly claim to be speaking on behalf of "the international community." But whom do they have in mind? China? Russia? India? Pakistan? Iran? The Arab world? The Association of Southeast Asian Nations? Africa? Latin

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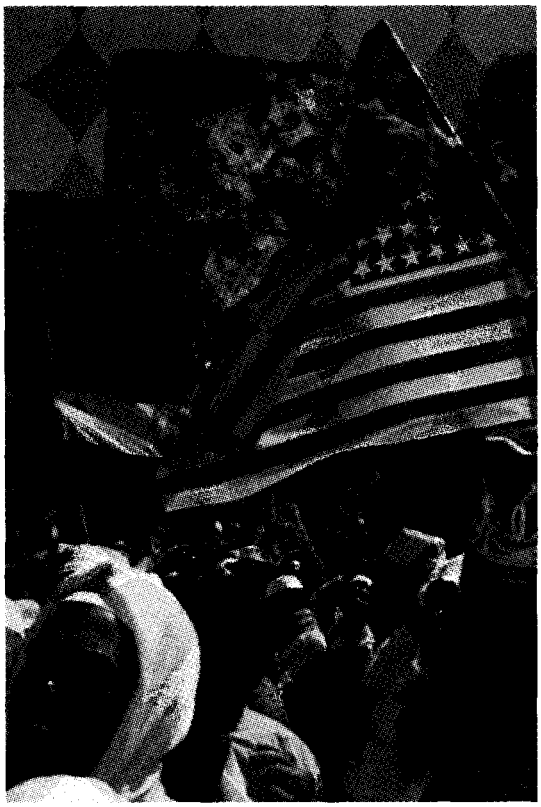

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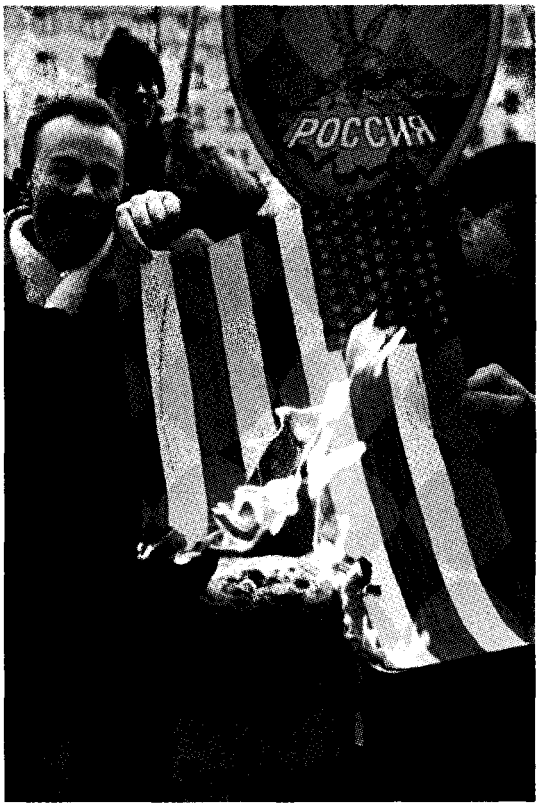

CORBIS-BETTMANN

. . . South Africa, and Russia

America? France? Do any of these countries or regions see the United States as the spokesman for a community of which they are a part? The community for which the United States speaks includes, at best, its Anglo-Saxon cousins (Britain, Canada, Australia, New Zealand) on most issues, Germany and some smaller European democracies on many issues, Israel on some Middle Eastern questions, and Japan on the implementation of U.N. resolutions. These are important states, but they fall far short of being the global international community.

On issue after issue, the United States has found itself increasingly alone, with one or a few partners, opposing most of the rest of the world's states and peoples. These issues include U.N. dues; sanctions against Cuba, Iran, Iraq, and Libya; the land mines treaty; global warming; an international war crimes tribunal; the Middle East; the use of force against Iraq and Yugoslavia; and the targeting of 35 countries with new economic sanctions between 1993 and 1996. On these and other issues, much of the international community is on one side and the United States is on the other. The circle of governments who see their inter-

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ests coinciding with American interests is shrinking. This is manifest, among other ways, in the central lineup among the permanent members of the U.N. Security Council. During the first decades of the Cold War, it was 4:1—the United States, the United Kingdom, France, and China against the Soviet Union. After Mao's communist government took China's seat, the lineup became 3:1:1, with China in a shifting middle position. Now it is 2:1:2, with the United States and the United Kingdom opposing China and Russia, and France in the middle spot.

In the eyes of many countries America is the rogue superpower.

While the United States regularly denounces various countries as "rogue states," in the eyes of many countries it is becoming the rogue superpower. One of Japan's most distinguished diplomats, Ambassador Hisashi Owada, has argued that after World War II, the United States pursued a policy of "unilateral globalism," providing public goods in the form of security, opposition to communism, an open global economy, aid for economic development, and stronger international institutions. Now it is pursuing a policy of "global unilateralism," promoting its own particular interests with little reference to those of others. The United States is unlikely to become an isolationist country, withdrawing from the world. But it could become an isolated country, out of step with much of the world.

If a unipolar world were unavoidable, many countries might prefer the United States as the hegemon. But this is mostly because it is distant from them and hence unlikely to attempt to acquire any of their territory. American power is also valued by the secondary regional states as a constraint on the dominance of other major regional states. Benign hegemony, however, is in the eye of the hegemon. "One reads about the world's desire for American leadership only in the United States," one British diplomat observed. "Everywhere else one reads about American arrogance and unilateralism."

Political and intellectual leaders in most countries strongly resist the prospect of a unipolar world and favor the emergence of true multipolarity. At a 1997 Harvard conference, scholars reported that the elites of countries comprising at least two-thirds of the world's people—Chinese, Russians, Indians, Arabs, Muslims, and Africans—see the

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United States as the single greatest external threat to their societies. They do not regard America as a military threat but as a menace to their integrity, autonomy, prosperity, and freedom of action. They view the United States as intrusive, interventionist, exploitative, unilateralist, hegemonic, hypocritical, and applying double standards, engaging in what they label "financial imperialism" and "intellectual colonialism," with a foreign policy driven overwhelmingly by domestic politics. For Indian elites, an Indian scholar reported, "the United States represents the major diplomatic and political threat. On virtually every issue of concern to India, the United States has 'veto' or mobilizational power, whether it is on nuclear, technological, economic, environmental, or political matters. That is, the United States can deny India its objectives and can rally others to join it in punishing India." Its sins are "power, hubris, and greed." From the Russian perspective, a Moscow participant said, the United States pursues a policy of "coercive cooperation." All Russians oppose "a world based on a dominant U.S. leadership which would border on hegemony." In similar terms, the Beijing participant said Chinese leaders believe that the principal threats to peace, stability, and China are "hegemonism and power politics," meaning U.S. policies, which they say are designed to undermine and create disunity in the socialist states and developing countries. Arab elites see the United States as an evil force in world affairs, while the Japanese public rated in 1997 the United States as a threat to Japan second only to North Korea.

Such reactions are to be expected. American leaders believe that the world's business is their business. Other countries believe that what happens in their part of the world is their business, not America's, and quite explicitly respond. As Nelson Mandela said, his country rejects another state's having "the arrogance to tell us where we should go or which countries should be our friends. . . . We cannot accept that a state assumes the role of the world's policeman." In a bipolar world, many countries welcomed the United States as their protector against the other superpower. In a uni-multipolar world, in contrast, the world's only superpower is automatically a threat to other major powers. One by one, the major regional powers are making it clear that they do not want the United States messing around in regions where their interests are predominant. Iran, for instance, strongly opposes the U.S. military presence in the Persian Gulf. The current bad relations between the

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United States and Iran are the product of the Iranian revolution. If, however, the Shah or his son now ruled Iran, those relations would probably be deteriorating because Iran would see the American presence in the Gulf as a threat to its own hegemony there.

FLEXIBLE RESPONSES

COUNTRIES RESPOND in various ways to American superpowerdom. At a relatively low level are widespread feelings of fear, resentment, and envy. These ensure that when at some point the United States suffers a humiliating rebuff from a Saddam or a Milošević, many countries will think, "They finally got what they had coming to them!" At a somewhat higher level, resentment may turn into dissent, with other countries, including allies, refusing to cooperate with the United States on the Persian Gulf, Cuba, Libya, Iran, extraterritoriality, nuclear proliferation, human rights, trade policies, and other issues. In a few cases, dissent has turned into outright opposition as countries attempt to defeat U.S. policy. The highest level of response would be the formation of an antihegemonic coalition involving several major powers. Such a grouping is impossible in a unipolar world because the other states are too weak to mount it. It appears in a multipolar world only when one state begins to become strong and troublesome enough to provoke it. It would, however, appear to be a natural phenomenon in a uni-multipolar world. Throughout history, major powers have tended to balance against the attempted domination by the strongest among them.

Some antihegemonic cooperation has occurred. Relations among non-Western societies are in general improving. Gatherings occur from which the United States is conspicuously absent, ranging from the Moscow meeting of the leaders of Germany, France, and Russia (which also excluded America's closest ally, Britain) to the bilateral meetings of China and Russia and of China and India. There have been recent rapprochements between Iran and Saudi Arabia and Iran and Iraq. The highly successful meeting of the Organization of the Islamic Conference hosted by Iran coincided with the disastrous Qatar meeting on Middle Eastern economic development sponsored by the United States. Russian Prime Minister Yevgeni Primakov has promoted Russia, China, and India as a "strategic triangle" to coun-

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terbalance the United States, and the "Primakov doctrine" reportedly enjoys substantial support across the entire Russian political spectrum.

Undoubtedly the single most important move toward an antihegemonic coalition, however, antedates the end of the Cold War: the formation of the European Union and the creation of a common European currency. As French Foreign Minister Hubert Védrine has said, Europe must come together on its own and create a counterweight to stop the United States from dominating a multipolar world. Clearly the euro could pose an important challenge to the hegemony of the dollar in global finance.

Despite all these antihegemonic rumblings, however, a more broad-based, active, and formal anti-American coalition has yet to emerge. Several possible explanations come to mind.

First, it may be too soon. Over time the response to American hegemony may escalate from resentment and dissent to opposition and collective counteraction. The American hegemonic threat is less immediate and more diffuse than the prospect of imminent military conquest posed by European hegemons in the past. Hence, other powers can be more relaxed about forming a coalition to counter American dominance.

Second, while countries may resent U.S. power and wealth, they also want to benefit from them. The United States rewards countries that follow its leadership with access to the American market, foreign aid, military assistance, exemption from sanctions, silence about deviations from U.S. norms (as with Saudi human rights abuses and Israeli nuclear weapons), support for membership in international organizations, and bribes and White House visits for political leaders. Each major regional power also has an interest in securing U.S. support in conflicts with other regional powers. Given the benefits that the United States can distribute, the sensible course for other countries may well be, in international-relations lingo, not to "balance" against the United States but to "bandwagon" with it. Over time, however, as U.S. power declines, the benefits to be gained by cooperating with the United States will also decline, as will the costs of opposing it. Hence, this factor reinforces the possibility that an antihegemonic coalition could emerge in the future.

Third, the international-relations theory that predicts balancing under the current circumstances is a theory developed in the context of the European Westphalian system established in 1648. All the countries in that system shared a common European culture that dis-

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tinguished them sharply from the Ottoman Turks and other peoples. They also took the nation-state as the basic unit in international relations and accepted the legal and theoretical equality of states despite their obvious differences in size, wealth, and power. Cultural commonality and legal equality thus facilitated the operation of a balance-of-power system to counter the emergence of a single hegemon, and even then it often operated quite imperfectly.

Global politics is now multicivilizational. France, Russia, and China may well have common interests in challenging U.S. hegemony, but their very different cultures are likely to make it difficult for them to organize an effective coalition. In addition, the idea of the sovereign legal equality of nation-states has not played a significant role in relations among non-Western societies, which see hierarchy rather than equality as the natural relation among peoples. The central questions in a relationship are: who is number one? who is number two? At least one factor that led to the breakup of the Sino-Soviet alliance at the end of the 1950s was Mao Zedong's unwillingness to play second fiddle to Stalin's successors in the Kremlin. Similarly, an obstacle to an anti-U.S. coalition between China and Russia now is Russian reluctance to be the junior partner of a much more populous and economically dynamic China. Cultural differences, jealousies, and rivalries may thwart the major powers from coalescing against the superpower.

Fourth, the principal source of contention between the superpower and the major regional powers is the former's intervention to limit, counter, or shape the actions of the latter. For the secondary regional powers, on the other hand, superpower intervention is a resource that they potentially can mobilize against their region's major power. The superpower and the secondary regional powers will thus often, although not always, share converging interests against major regional powers, and secondary regional powers will have little incentive to join in a coalition against the superpower.

THE LONELY SHERIFF

THE INTERPLAY of power and culture will decisively mold patterns of alliance and antagonism among states in the coming years. In terms of culture, cooperation is more likely between countries with cultural com-

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monalties; antagonism is more likely between countries with widely different cultures. In terms of power, the United States and the secondary regional powers have common interests in limiting the dominance of the major states in their regions. Thus the United States has warned China by strengthening its military alliance with Japan and supporting the modest extension of Japanese military capabilities. The U.S. special relationship with Britain provides leverage against the emerging power of a united Europe. America is working to develop close relations with Ukraine to counter any expansion of Russian power. With the emergence of Brazil as the dominant state in Latin America, U.S. relations with Argentina have greatly improved and the United States has designated Argentina a non-NATO military ally. The United States cooperates closely with Saudi Arabia to counter Iran's power in the Gulf and, less successfully, has worked with Pakistan to balance India in South Asia. In all these cases, cooperation serves mutual interests in containing the influence of the major regional power.

Most of the world does not want America to be its policeman.

This interplay of power and culture suggests that the United States is likely to have difficult relations with the major regional powers, though less so with the European Union and Brazil than with the others. On the other hand, the United States should have reasonably cooperative relations with all the secondary regional powers, but have closer relations with the secondary regional powers that have similar cultures (Britain, Argentina, and possibly Ukraine) than those that have different cultures (Japan, South Korea, Saudi Arabia, Pakistan). Finally, relations between major and secondary regional powers of the same civilization (the EU and Britain, Russia and Ukraine, Brazil and Argentina, Iran and Saudi Arabia) should be less antagonistic than those between countries of different civilizations (China and Japan; Japan and Korea; India and Pakistan; Israel and the Arab states).

What are the implications of a uni-multipolar world for American policy?

First, it would behoove Americans to stop acting and talking as if this were a unipolar world. It is not. To deal with any major global issue, the United States needs the cooperation of at least some major

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powers. Unilateral sanctions and interventions are recipes for foreign policy disasters. Second, American leaders should abandon the benign-hegemon illusion that a natural congruity exists between their interests and values and those of the rest of the world. It does not. At times, American actions may promote public goods and serve more widely accepted ends. But often they will not, in part because of the unique moralistic component in American policy but also simply because America is the only superpower, and hence its interests necessarily differ from those of other countries. This makes America unique but not benign in the eyes of those countries.

Third, while the United States cannot create a unipolar world, it is in U.S. interests to take advantage of its position as the only superpower in the existing international order and to use its resources to elicit cooperation from other countries to deal with global issues in ways that satisfy American interests. This would essentially involve the Bismarckian strategy recommended by Josef Joffe, but it would also require Bismarckian talents to carry out, and, in any event, cannot be maintained indefinitely.

Fourth, the interaction of power and culture has special relevance for European-American relations. The dynamics of power encourage rivalry; cultural commonalities facilitate cooperation. The achievement of almost any major American goal depends on the triumph of the latter over the former. The relation with Europe is central to the success of American foreign policy, and given the pro- and anti-American outlooks of Britain and France, respectively, America's relations with Germany are central to its relations with Europe. Healthy cooperation with Europe is the prime antidote for the loneliness of American superpowerdom.

Richard N. Haass has argued that the United States should act as a global sheriff, rounding up "posses" of other states to handle major international issues as they arise. Haass handled Persian Gulf matters at the White House in the Bush administration, and this proposal reflects the experience and success of that administration in putting together a heterogeneous global posse to force Saddam out of Kuwait. But that was then, in the unipolar moment. What happened then contrasts dramatically with the Iraqi crisis in the winter of 1998, when France, Russia, and China opposed the use of force and America assembled an Anglo-Saxon posse, not a global one. In December 1998

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support for U.S. and British air strikes against Saddam was also limited and criticism widespread. Most strikingly, no Arab government, including Kuwait, endorsed the action. Saudi Arabia refused to allow the United States to use its fighter planes based there. Efforts at rallying future posses are far more likely to resemble what happened in 1998 than what happened in 1990–91. Most of the world, as Mandela said, does not want the United States to be its policeman.

As a multipolar system emerges, the appropriate replacement for a global sheriff is community policing, with the major regional powers assuming primary responsibility for order in their own regions. Haass criticizes this suggestion on the grounds that the other states in a region, which I have called the secondary regional powers, will object to being policed by the leading regional powers. As I have indicated, their interests often do conflict. But the same tension is likely to hold in the relationship between the United States and major regional powers. There is no reason why Americans should take responsibility for maintaining order if it can be done locally. While geography does not coincide exactly with culture, there is considerable overlap between regions and civilizations. For the reasons I set forth in my book, the core state of a civilization can better maintain order among the members of its extended family than can someone outside the family. There are also signs in some regions such as Africa, Southeast Asia, and perhaps even the Balkans that countries are beginning to develop collective means to maintain security. American intervention could then be restricted to those situations of potential violence, such as the Middle East and South Asia, involving major states of different civilizations.

In the multipolar world of the 21st century, the major powers will inevitably compete, clash, and coalesce with each other in various permutations and combinations. Such a world, however, will lack the tension and conflict between the superpower and the major regional powers that are the defining characteristic of a uni-multipolar world. For that reason, the United States could find life as a major power in a multipolar world less demanding, less contentious, and more rewarding than it was as the world's only superpower.

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Bully of the Free World

Garry Wills

HABITS OF HEGEMONY

"FOREIGN POLICY leadership" has become an ambiguous phrase. It once meant leading the American people in the formation and execution of national policy. But some now use it to state a less obvious idea: the United States leading other nations in the international arena. Why should other nations follow U.S. leaders rather than their own? Leadership involves some common stake between the leader and the led, some basis for agreement on goals to be sought and prices to be paid. The more recent meaning of foreign policy leadership has thrust itself to the fore because of America's claim to be "the leader of the free world."

That claim arose during World War II, when the United States was the de facto leader of the Allies. It made sense to have a dominant partner in the military alliance for the duration of the war effort, and even after 1945 there have been military alliances, such as NATO and the Southeast Asia Treaty Organization, in which the United States could properly be called the leader. But the term "leader of the free world" came to have a more grandiose meaning, extending to nations with no formal alliance with the United States. In the global struggle between two ideologies, only the capitalist nations could be described as free. We aspired not only to lead them all but to entice socialist countries to join us as well.

There has never been a more universal agenda. America was the champion of freedom anywhere freedom was valued or challenged or losing—covering all situations for all peoples. The United States considered itself not only a legitimate leader but actually more legitimate than indigenous leaders who did not meet the U.S. definition of

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freedom-loving behavior. Washington "led" people by removing inauthentic leaders—the enemies of freedom—even when the people had chosen them. Over time, American leadership substituted for that of Muhammad Mossadeq in Iran, Jacobo Arbenz Guzmán in Guatemala, Patrice Lumumba in the Congo, Ngo Dinh Diem in South Vietnam, Rafael Trujillo in the Dominican Republic, Salvador Allende in Chile, Daniel Ortega in Nicaragua, Maurice Bishop in Grenada, and Manuel Noriega in Panama.

This is what was considered leading the free world. But however justified these acts may have been strategically, they cannot be called

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leadership. Leaders persuade followers. The United States used covert action, sabotage, and threats. To say that America led Chile because it undermined its elected government is like saying that President Nixon led the Democratic Party because his minions burgled its party headquarters. What is the proper description of what the United States was doing? "Imperialism" does not seem the right word, since an empire usually absorbs subject states and takes their natural resources, markets, or labor. The United States, in contrast, wanted a network of perches for military action against the Soviet Union. It did not want to annex the countries but to use them—call it "security imperialism."

This approach began with the Strategic Air Command, whose bases had to be guaranteed if the U.S. military was to be able to deliver nuclear weapons. Naturally, any facility servicing U.S. planes or warships had to be protected by the United States, even if it was on foreign soil. And America clearly needed friendly regimes at those sites. From this it was a short step to removing unfriendly officials or promoting subservient ones. All this was done in the name of freedom, and it did not look sufficiently like old-fashioned imperialism (at least to us) for Americans to question it. Instead, it was called leadership.

THE LONELY AMERICAN

THUS "leader of the free world" came to infect American language and thinking. Even with the end of the Cold War, many have not jettisoned the idea, although it is heard less often. As the world's only superpower, America is told that it must act like "a great nation," which still means defending freedom around the world. That is a difficult enough task for any nation. It is even more difficult for America, not only because of its established Cold War pattern but also because of its long-standing tradition of holding aloof from international partnerships. The view that the United States acts authentically only when it acts independently has recurred, from Thomas Jefferson's warning against "entangling alliances" through the Monroe Doctrine, manifest destiny, and rejection of the League of Nations to the current distrust of the United Nations, the International Monetary Fund (IMF), the International Criminal Court, and any agencies set up to monitor seas, pollution, or land mines.

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Whatever else this suspicious attitude does, it cripples America's ability to lead other countries. A leader must understand followers and be able to enlist their energies so that they are willing to do something for the greater good. Force, subversion, and defiance are not the traits of a leader. No one can lead people without listening to them, reasoning with them, and showing respect for them. The wisest diplomatic advice in America's founding period is also its most neglected. It was enunciated by James Madison in *The Federalist*, No. 63:

> An attention to the judgment of other nations is important to every government for two reasons. The one is that, independently of the merits of any particular plan or measure, it is desirable, on various accounts, that it should appear to other nations as the offspring of a wise and honorable policy.

In other words, the concerns of others should be taken into account regardless of the particular policy at issue. If support cannot be elicited, at least there should be no needless hostility aroused or misunderstandings fostered. But Madison, not content to say just that, continues:

> The second is that, in doubtful cases, particularly where the national councils may be warped by some strong passion or momentary interest, the presumed or known opinion of the impartial world may be the best guide that can be followed.

In short, if we listen, we may learn something, discover our own error, or at the least, learn what objections it would be wise to consider. Now that is leadership talk.

Madison was talking about the need to have a senate of older members with longer tenure who could ponder foreign relations with some knowledge of other countries in order to deal with them intelligently—an institution lacking in the unicameral Congress of the Articles of Confederation. States under the Articles ignored or defied international agreements on foreign debts, Indian relations, and navigation, actions that should sound familiar at a time when the United States is refusing to pay its share of the U.N. budget. But how many politicians today would say that the United States should go to international forums to learn rather than to dictate? World opinion, Americans are constantly told, should be defied when it does not

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match the U.S. view of reality. (Of course, one reality this view most needs to acknowledge is that there is a world outside the United States.) Therefore, for example, the fact that world opinion advised America to leave Vietnam became an argument for staying there: Are we to be led by others' views? We must go our own way.

What can explain this unwillingness to accept partnership, a prior condition of leadership? Travelers often notice the contrast between foreign papers' coverage of international affairs and America's exiguous reporting on things beyond its borders. Even the best newspapers have skimpy reports of any but a few international events. This stems partly from the fact that the United States has so few immediate neighbors. The nations of Europe jostle along in close proximity to a dozen other countries and languages, while Americans refuse to school themselves in any foreign tongue, even in the Spanish of their nearest neighbors. Another factor behind this ignorance of other nations may be America's lack of an overt empire. European habits of reporting began when uncles and grandfathers remembered serving in India or the Congo or Indochina.

ON SECRECY

AMERICAN ELECTIONS are decided mainly on domestic issues, except in times of war. Even then, public interest in the world is so minimal that the relevant geography is fuzzy. How long did it take for Americans to discover where Laos was, or Cambodia? Who can tell exactly where Kosovo is? How many citizens have atlases that reflect the extensive changes in national boundaries over the last decade? It is not surprising that foreign affairs become matters of electoral concern only when they project domestic disputes. Our relations with other nations now wait on the agenda of the Christian right, which will not allow a qualified ambassador to be confirmed if he is gay, or let aid go where it might be given to a family planning program, or trade to continue with China if Christians are being persecuted there, or relations to be normalized with Cuba if that will lose Florida voters. There can be no greater absurdity than for the United States to dictate to other nations that they cannot have abortions or abortion counseling when these are both perfectly legal here.

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This is a classic case of the "leader" demanding, "Do as I say, not as I do" and thereby disqualifying itself as a leader.

When the people lack interest in foreign affairs, foreign policy elites tend to conclude that the subject is beyond the capacity of all but a few. This tendency has been vastly accelerated by the growth of secrecy in national security matters. Only those cleared to read classified material feel qualified to make decisions, and they rudely demand that the electorate stay away from the delicate work of its betters. They claim that citizens at large do not need to know the arcana of international policymaking but must simply trust the privileged few to do what needs doing. Indeed, citizens at large must be prevented from knowing. That was the whole point of the Pentagon Papers controversy. For years Americans were assured that they would understand and support the Vietnam War if only they knew the bases on which it was formed, which by definition they could not know. The Pentagon Papers' revelation was not that it betrayed any fundamental knowledge, but that *there was no such knowledge*. Senator Daniel Patrick Moynihan (D-N.Y.) describes this very well in his recent book, *Secrecy: The American Experience*. He argues that secrecy, once a necessary evil to protect dangerous knowledge, has become a positive recommendation. Now, any policy is good precisely to the degree that it is based on knowledge too precious to be dispersed. This process of secrecy grows by feeding on itself. As Moynihan points out, the number of secrets has not shrunk with the end of the Cold War but has expanded, reaching "a stunning 62 percent increase in new secret documents—almost six million in all, and all of them deemed threats to national security if ever disclosed."

Americans must acknowledge the world outside their borders.

The continuing emphasis on the cult of secrecy was demonstrated in the Gulf War. Admiral William Crowe, the former head of the Joint Chiefs of Staff, registered doubts about that venture to a congressional committee, only to have then Secretary of State James A. Baker III dismiss his testimony because the admiral no longer read classified cables. If Crowe, with his wealth of military and political experience, was not qualified even to voice an opinion, where does that leave the rest of us ordinary citizens? Obviously, with no right to any say in the matter.

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Not only does the U.S. government dismiss world opinion, it dismisses the opinion of its own voters.

AMERICA THE RUDDERLESS

So SHOULD foreign policy leadership mean leading other nations or leading this nation in the diplomatic arena? The United States does not do either very well at the moment, yet leading the American people is the necessary prelude to addressing others in the world. And a necessary condition to leading Americans is consulting them, recruiting their support, and persuading them when they doubt or hesitate. This is more important than ever now that the Cold War is over.

Patrick J. Buchanan and others saw the end of that conflict as a signal that the United States could safely disengage from the rest of the world. Lacking the Soviet threat, they argue, America has no great stake in what happens elsewhere. There are currently two main responses to this attitude. One is to say that America is still in great danger—as Richard Mellon Scaife, a right-wing philanthropist, told *George*, "We are a sitting duck for missiles from North Korea or China." Other Republicans argue that unless the United States creates President Reagan's "Star Wars" missile shield, it will be exposed to rogue states with nuclear weapons. And this sends us down the same path toward more of the same old secrecy, more elitist arrogance, and more concentration of power in the hands of the military-industrial complex.

The other response to Buchanan is to argue for economic internationalism. President Clinton has tried to make this case, although he admits he has not been able to break through public resistance to it. When I interviewed the president last April, he said,

> I think I have not succeeded yet in convincing the core majority of the country that there is no longer an easy distinction between domestic policy and foreign policy. . . . These factors argue for a vigorous, engaged America at this moment, which will not last forever, when we are the dominant power in the world. We should use this opportunity to put America at the center of all the emerging trade networks of the world both for our national security, our global position, and for our economic health. Thirty percent of our growth over the last five years has come from expanded trade.

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The Internet is integrating the world; issues of population, health, and the environment do not recognize national boundaries. And the interaction works both ways. Protectionists cannot simply ignore American ties with other economies, nor can believers in free trade ignore the political need to ensure that jobs stay at home.

CUTTING OFF OUR NOSE

If, as President Clinton says, the United States should be at the nexus of trade exchanges, it must also place itself at the points of political intersection. National security will depend on the ties that bind people together. A framework of mutually enriching exchanges protects far better than nuclear weapons in space. To argue for such exchanges, the United States must go to the places where nations are gathered for discussion—the United Nations, the IMF, the World Bank, and other such organizations. The United States cannot make its case if it is not present. America's historical distrust of international organizations often provokes it to storm off and take its own course when it does not get its way. But failure to make its case should induce the United States, as Madison recommended, to reconsider that case, rephrase the case more persuasively, or look for other matters that will mitigate, obviate, or wear down the opposition.

But America cannot bring other nations into any kind of dialogue until its internal discourse is active and informed. The president has admitted he did not convince the public about the importance of engagement. He did not convince Congress either. As a leader, well before scandal immobilized him, he needed to work with his own party and the congressional leadership in ways that his talk of "triangulation" undermined. Triangulation was an affront to the very idea of partnership: you do not win followers by saying you are going to go around them.

Instead, the president's foreign policy successes have occurred where he has acted as an honest broker—in Ireland, the Middle East, and the Balkans—because a broker is a neutral, impartial negotiator. In other words, he has succeeded in situations where he had a free hand because America's own resources were not being committed. But he has had a far more difficult time in situations that might cost Americans something—as in using the military in Iraq—because

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those situations require convincing others to follow. With the Desert Fox strikes against Saddam Hussein, Clinton has reverted to the old pattern of acting without congressional or U.N. mandate.

President Bush offended many Republicans by submitting the Gulf War to congressional debate and international diplomatic approval. Doing so exacerbated right-wing fears of the "new world order." In reaction, conservatives passed resolutions barring American soldiers from serving under non-American U.N. commanders, a perfect example of cutting off one's nose to spite one's face. Suppose there were some worthy goal for which we could enlist support from other nations, relieving Americans of bearing the whole burden. If the perfectly reasonable condition of such partnership were some shared leadership, then these restrictions would exclude the United States from either the action or the assistance. Besides, what self-respecting people would want to assume its share of risk without any share of responsibility? Leaders should always shy away from asking others to do what they would not.

The perfect antidote to such demands is Madison's recommendation that American leaders consult the views of others and try to see themselves through their eyes. The United States is currently the world's most powerful nation, but that power will be sustained only by soliciting cooperation. When Paul Kennedy, a Yale historian, wrote *The Rise and Fall of the Great Powers*, he was accused of predicting America's decline. He was instead saying that international power must be diffused to be maintained, as new power centers will extend U.S. power by buying America's products and supplying it with goods and labor. Diffusion of power is a benign process, admitting that a nation does not prosper in the long run by suppressing any and all rivals.

A PARABLE

PRESIDENT CLINTON should have learned something about making foreign policy from his failure in health care reform. He formulated his plan as if it were top-secret foreign intrigue, expecting the public to accept a fait accompli. The plan supposedly came from those possessing wisdom not granted to ordinary citizens. But in this matter, unlike many foreign policy debates, the secrecy could be challenged. When the plan was brought down from Mount Sinai, it was easy for

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lobbyists to distort it. Although failure to include the people is unusual in domestic politics, it remains the standard in establishing foreign policy. Admittedly, diplomacy does at times call for "secrecy and dispatch." But the times calling for it are few compared with the times when it is invoked. Henry A. Kissinger established a model of foreign policy expertise that emphasized the correct conceptual framework and the latest intelligence reports. These tools have nothing to do with leadership. Having the clearest and best policy vision does not get others to do it. For that, the support of the nation must be won not by dictating policy but by earning trust.

The best illustration of this truth is G. K. Chesterton's play *The Surprise*. In it, a holy monk comes across a master puppeteer whose life-size figures act out a romantic tale of love and adventure. The puppeteer laments that his characters, so dear to him, cannot move independently. The monk prays for a miracle, and the puppets begin to move on their own, acting out the very same story. But little things go wrong and accumulate until lovers quarrel and friends become violent. The puppeteer then shouts out, "Stop! I'm coming down!" The curtain falls just when the puller of strings must for the first time be a leader.

The puppeteer, like Kissinger or the writers of the Clinton health plan, thought he knew what was best for the characters he was manipulating. He had all the available information about these creatures and their environment. What he did not have was the friction of other independent minds. He was not leading but dictating, just as the United States did to the countries whose leaders it knocked over. But at the end of *The Surprise* the puppeteer has to accommodate the recalcitrant desires, doubts, and objections of the puppets-turned-actors. That is the arena every leader must enter. Until America's leaders address the American people and other nations with that kind of respect, attention, and persuasion, we shall lack foreign policy leadership of any sort.

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Reportage

The Colonel in His Labyrinth

Milton Viorst

LIBYA'S GAMBLE

COLONEL QADDAFI'S emissary, Youssef Debri, met me in Cairo. He was in Egypt exploring the ramifications of Libya's surrendering two of its citizens to stand trial for the 1988 bombing of Pan Am flight 103 over Lockerbie, Scotland. In formal talks in New York, a U.N. official had already managed to narrow the gap between Libya's concerns and the British-American proposal for a trial in the Netherlands, but important differences remained. Now Debri was in Cairo informally, to clarify Washington's terms with a well-connected, retired American diplomat, in the hope of ending Qaddafi's equivocation.

An intimate of Qaddafi since their student days at military college, Debri had contacted me some weeks before to propose that I visit Libya. Cut off from the world by the U.N. embargo over Lockerbie, Libya, he said, had grown weary of its isolation. Under the embargo's terms, it could sell oil—its only export—to European customers, so it had money for food and medicines. But the other barriers to trade and transportation were wearing it down. Few businessmen and almost no journalists came to call. Debri's message was that Libya, anxious for a new start, wanted to put Lockerbie behind it. In Libya, he

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assured me, I would be free to go where I liked and to see whomever I wanted, including Qaddafi himself.

Having decided on the journey, I went to the State Department for a briefing. Officials there acknowledged that they knew little about what was going on in Libya. In 1986, two years before Lockerbie, President Reagan broke off relations with Libya and imposed economic sanctions in response to a series of terrorist incidents. In the past few years, the officials said, Libya had committed no terrorist acts. Unlike Iraq, it posed no strategic threat. But because of Lockerbie, the United States still shunned Qaddafi and kept Libya on its list of terrorist states.

In 1991, a U.S. grand jury indicted two Libyans—Lamin Khalifa Fhimah, ex-manager of the Libyan Arab Airlines office in Malta, and Abdel Basset Ali al-Megrahi, a high-level intelligence official—for the Lockerbie bombing. A British court did the same. In 1992, the U.N. Security Council imposed its own sanctions, including a flight ban that effectively closed Libya's airports. Tripoli, in response, proposed trying the two suspects in a neutral country, but Washington and London would have none of it. Then, last August, Secretary of State Madeleine K. Albright announced that she would "call the Libyan government's bluff" and offered a trial by a Scottish court seated in the Netherlands. Libya agreed in principle, but Qaddafi demanded more details.

Though the American embargo did not bar my visit (since it makes an exception for journalists), the U.N. sanctions kept me from flying to Libya directly. The conventional route to Tripoli, the capital, is through Djerba, a southern Tunisian town, where Debri said a car would meet me for the 250-mile overland leg. But while I was in Paris waiting to embark, he sent word that Qaddafi had dispatched him on the Cairo mission. At Debri's request, I flew to Cairo instead.

The change of itinerary permitted me, in the next few days, to discuss Libya in Paris and Cairo. The two capitals have an interest similar to Washington's, since Libya has been implicated in the loss of both French and Egyptian airliners. France, in fact, was preparing at that very moment to try six Libyans in absentia for the bombing of a French UTA plane over Niger in 1989, at a cost of 171 lives. But neither country has severed ties with Libya, and policymakers in both maintained that Libya was now serious about wanting to return to the world community.

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ON THE ROAD

WITH DEBRI, I set off for Tripoli—more than 2,000 miles from Cairo. Most of a day passed just reaching Libya's frontier, although it included a stop at El Alamein, where old British, German, and Italian tanks in a modest museum rekindled my boyhood fascination with Montgomery's 1942 victory. From there we followed the route of Rommel's retreat: along the coast to Matruh and Sidi Barrâni in Egypt, then to Tobruk, Darnah, Benghazi, and Tripoli in Libya.

Along the coast road—first built by Mussolini, recently reconstructed by German engineers—rusty Toyota pickups were practically the only traffic. Power lines and satellite dishes shadowed the route. At night, TV sets glimmered eerily through open windows in small villages that whirred by. The road signs were in Arabic alone; after the revolution, Qaddafi banned—along with alcohol—all signs using the Latin alphabet. His full-color portrait in assorted heroic poses appeared intermittently at crossroads and traffic circles, but compared to Saddam Hussein in Iraq or Hafiz al-Asad in Syria, Qaddafi was scarcely visible.

Inside Libya, we hit a checkpoint every 30 or 40 miles, where one or two security men waved our car through. I had read reports—hotly denied by the government—that Islamic assassins attacked Qaddafi last June on this very road. Whether it was true or not, Libya seemed quite casual about security.

Tobruk, our first stopover, is an unattractive town, its streets rutted and unswept, its edges cluttered with ugly four-story apartment blocks. But there was plenty of food in the shops, and in the schoolyards, wearing neat blue uniforms, were healthy-looking children. A few women wore veils, but most had on Western dress, and many displayed uncovered hair.

Next came Benghazi, which impressed me with its energy. Libya's second-largest city had seemed at death's door a decade ago, with an almost-exhausted, brackish water supply. But the Man-Made River, a project begun with American engineers in the 1970s, now pumps in water through 14-foot pipes from huge desert aquifers 600 miles to the south. Budgeted at $25 billion, the project aims to transform the coastal plain, where most Libyans live, into fertile fields and vibrant cities. Some Western critics claim Libya would have done better to invest in less expensive seaside desalination plants. But Libyan

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officials boast of the project's cost-effectiveness, and citizens speak of it with pride as their best hope for a prosperous future.

In Benghazi, I asked Youssef (we were now using first names) to introduce me to some of his countrymen. To my surprise, at about midnight, six doctors and professors from the university showed up at the hotel. All well dressed, they had been trained in America or Britain and spoke excellent English. The invitation, they said, offered them a rare opportunity to meet an American. Youssef ordered coffee and cookies for everyone, then withdrew so that we could speak privately. We continued talking until nearly two o'clock in the morning.

Americans, they all agreed, dismiss Libya as a country of terrorists and paupers. "There are many changes going on here," one said, "and you won't take the trouble to understand them." They said that Libya—ruled in turn by Turks, Italians, and British—still suffered from the legacy of colonialism but was struggling resolutely toward self-government.

Qaddafi's Green Book, his manual on Libya's future, proposes establishing a system of people's congresses that he claims reflect the popular will more accurately than Western-style democracy. My visitors said that such popular congresses, in which all Libyans participate, do indeed make policy. Meetings are held at regular intervals in towns and villages and annually at the national level. While acknowledging flaws in the system, they called it a legitimate exercise in democracy and spoke of it with affection.

"You think Qaddafi makes all the decisions, but the people actually make them," one visitor insisted. "We respect him as the leader of our revolution. He brought us schools and roads and clinics. He changed the face of our country. He commands attention. But Qaddafi is not a dictator, like Saddam Hussein. It is the congresses that rule, often rejecting his ideas. They routinely criticize government actions. Our practice, we know, is not up to our theory, but we get better each year."

My visitors told me that every Libyan was now discussing the Lockerbie proposal. Most, they said, considered it a humiliation, but Libya was under heavy international pressure to accept it, particularly from the Arab League. As early as 1992, the General People's Congress, the highest legislative organ, passed a resolution to hand over the suspects to a "fair and just" tribunal. My visitors said they endorsed the

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resolution, confident—since Libya does not engage in terrorism—that the suspects would be found innocent. But innocent or not, they said, Libya is too weak to submit to the embargo any longer.

Our next stopover was Sirte, chosen by Qaddafi as Libya's new capital. Money was clearly pouring in. Some state offices had already relocated to temporary quarters in the city, and handsome housing was going up. A huge, modern government complex, the work of Italian builders, was nearly completed and is to house the General People's Congress and most ministries.

Qaddafi is bringing government closer to the people.

Qaddafi, who talks of bringing government closer to the people, dislikes Tripoli for its vestiges of Italian colonialism and chose Sirte for its centrality. Most important, Sirte is also Qaddafi's home turf. He was born south of the city in 1942, in the desert where his father, a Bedouin tribesman, herded sheep and goats. Libyans say the desert surrounding Sirte remains in Qaddafi's blood.

Biographers agree that as a youth Qaddafi was puritanical, studious, charismatic, religious—and nationalistic. Even in high school, he agitated to drive out the British forces that had supported Libya's monarchical regime since the end of World War II. Nearby wars—the Anglo-French invasion of Suez in 1956, Algeria's 1956–62 struggle for independence, the Arab-Israeli war of 1967—all sharpened his anti-imperial disposition.

Young Qaddafi's hero was Gamal Abdel Nasser, the fiery Egyptian president who preached a heady, aggressive Arab nationalism. As a junior officer, Qaddafi, emulating Nasser, organized a band of colleagues to overthrow the shaky King Idris and succeeded in doing so in 1969. Although he later absorbed some democratic and socialist notions, a hatred of imperialism remains the root of his ideology and the driving force of his regime. Independence was a luxury Libya was able to afford: billions of dollars in oil revenues arrived early on to assure the revolution's financial freedom. One of Qaddafi's first acts as ruler of Libya was to demand the departure not just of the British but also of the Americans, who ran a huge air base outside Tripoli. Although his relations with Washington would worsen later, they were edgy from the very start.

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TEA IN THE SAHARA

AROUND ELEVEN O'CLOCK on the morning after our arrival in Sirte, Youssef and I set out, heading south, to see Qaddafi. After a half-hour ride across the desert, we were met by a police escort, which led us to an almost indiscernible dirt track that ran off the paved road. A bumpy mile or so later, we reached the gate of a chainlink fence, where three or four limousines sat. Parking our car among them, we piled into a Land Rover, which bucked us over rock and sand a half-hour deeper into the desert. Finally, we reached an encampment of large tents and modern trailers near which grazed a herd of some 200 camels. No armed guards seemed to be anywhere in view.

I knew, of course, that Qaddafi often receives visitors in his tent. Critics call it a conceit; admirers say he is just being true to himself. The tent to which I was first directed was ballroom-size, its sides open to admit the breeze. Seated next to three Africans in native robes, I was offered tea. The Africans made a brief call on Qaddafi, after which Youssef escorted me to Qaddafi's tent, pitched nearby, and left me there.

Save for a few simple chairs and a table, the tent was bare. Its camel-skin roof and sides were weathered; the rugs covering the sand floor were ordinary. Qaddafi sat alone, except for an interpreter. A beige turban half-concealed his bushy hair. He wore a thin, tattered Bedouin robe, embroidered at the edges, over a much-laundered print sport shirt and khaki pants. His furrowed face was clean-shaven, his eyes covered by dark glasses. Libyans say they love Qaddafi for the austere life he leads. The setting seemed to vindicate this reputation.

Leaning on a metal crutch, Qaddafi rose to shake my hand. Foreign press reports had it that he was nursing a wound from the assassination attempt near Tobruk; the official line claimed injury in a household accident. I was aware of Qaddafi's reputation for impulsiveness and hyperbole. But since I had been invited to Libya to report on its effort to return to the world community, I expected him to indulge me with soft and soothing words. I could not have been more wrong.

I began the interview by asking whether the view that Libya had embarked on a new course was correct. Qaddafi did not turn to me to answer. Through the open flaps of the tent, he fixed his eyes on the

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horizon. His lips seemed barely to move. He spoke in a controlled monotone, though from time to time emotion quickened its pace.

"America," he said, "unfortunately treats us as if the world was the way it used to be. Americans accept that changes have taken place since the end of communism, but not in their treatment of Libya. So in the end, they take a racist and fanatical position, similar to the way Hitler treated the Jews. We feel that America is much like Hitler. We have no explanation for this, except that it is a religious, fanatical, racist position. Some analysts call this a new colonialism. But colonialism is colonialism, and it is always unjust. It is how we were treated by the Italians, Algeria by the French, India by the British. This is imperialism, and we seem to be entering a new imperialist era.

"The cause of our conflict with America is not that we attacked them. We have never attacked an American target. America started the aggression against us right here in the Gulf of Sirte. When we defended ourselves, they attacked us in these very tents. We were bombed by missiles in our own territorial waters. In 1986 our own children were killed. No one can bring my daughter back to me. Then Lockerbie came along. Now we'd like this chain of events to be over. But America doesn't want to turn the page. We shall, however, show courage and be patient, and America will be the loser."

The events about which Qaddafi rambled date back to 1981, when American jets shot down two Libyan planes in a dispute over the extent of Libya's territorial waters. In January 1986, President Reagan, responding to terrorist attacks in Rome and Vienna, blocked commerce with Libya and froze its American assets. A few weeks later, U.S. Navy planes bombed Sirte and destroyed four patrol boats in another dispute over territorial waters. In April, Reagan, blaming Libya for a bomb that killed two American soldiers in a Berlin nightclub, attacked Tripoli and Benghazi, along with suspected terrorist camps in the desert. Among the 37 civilians reported killed was Qaddafi's adopted infant daughter, Hana'a. Libyans say the child's death haunts him still.

When I asked Qaddafi if Libya was responsible for the many terrorist incidents of which it was accused in the 1980s, he issued no denial. "These incidents that you mention belong to the past," he said. "Once Abu Amar [Yasir Arafat] was wanted. Now he enters the White House with all the trappings, the music, the red carpet treatment." I thought I detected a

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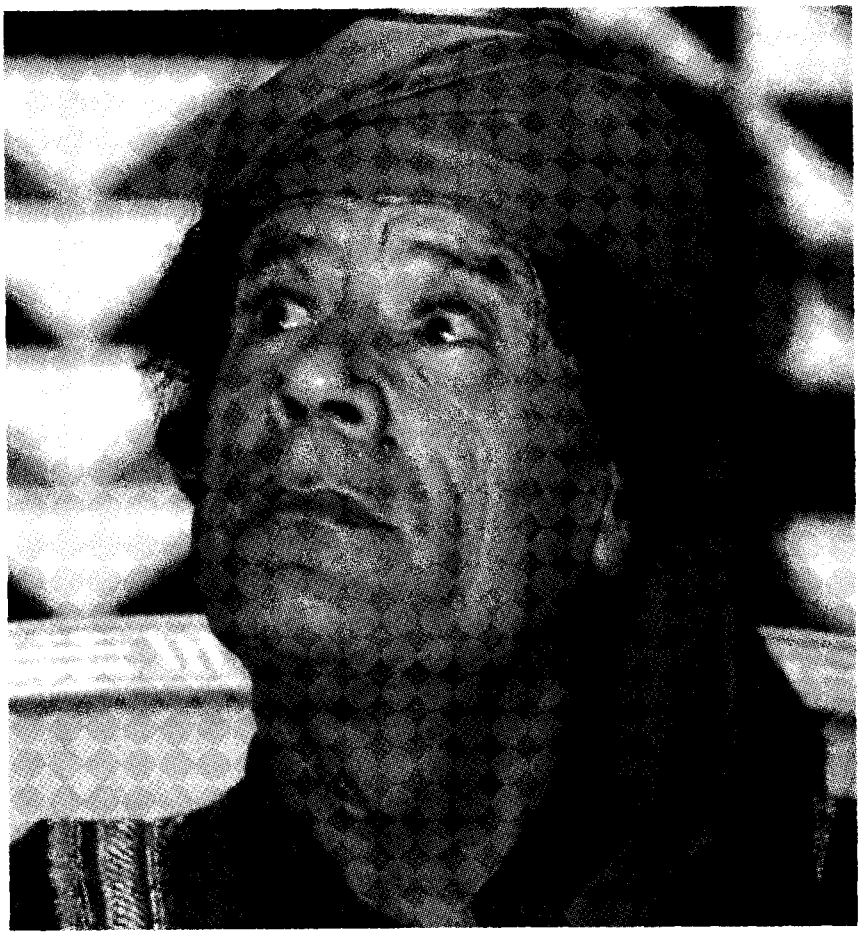

AP/WIDE WORLD PHOTOS

Reinventing government? Qaddafi in his tent, Sirte, 1996

note of envy in his voice. "They say Libya is a terrorist country. But now that is illogical, not reasonable. All these things are of the past, an era that is over. The bombing of the French plane took place during a time of war in the region—Libya, Chad, France. It was similar to America's downing of the Iranian plane in the Gulf. The Israelis shot down a Libyan aircraft over the Sinai. The Soviet Union shot down a Korean airplane. It was a time of war. So how come you forgot all about that and you just mention the charges against Libya? There is no explanation for that. We go back to the racist, fanatical complexes of America."

When I suggested to Qaddafi that the downing of the other airliners might have been the result of miscommunications, he broke into derisive laughter. But I persisted, asking whether the UTA and Lockerbie bombings were not deliberate efforts to kill.

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"Look at your logic, the American logic. Those who use missiles or fighter planes and rockets are legitimate. Those who use explosives or small bombs are considered terrorists. If we use the same logic, Usama bin Ladin will use cruise missiles, the same weapon used by America, and he will not be accused of being a terrorist. Whether we were responsible for bringing down the French plane will be decided by a French court. We don't say anything about it. The same is true of Lockerbie. I can't answer as to whether Libya was responsible. Let's let the court decide. Libya has not been convicted of any terrorist act up to this moment. If they accuse us, they have to prove their charges."

"America treats Libya the way Hitler treated the Jews."

Was terrorism, I asked, ever in Libya's national interest?

"Why do you ask me that? Why don't you ask why it is in America's interest to attack us in the Gulf of Sirte, why it is in America's interest to kill our children? Is it so unusual for Libya to have a reaction when these things happen? Who is being unfair? We have no interest in being hostile to America. We would be fools to initiate a confrontation with America. But when you face aggression, you have to defend yourself, no matter how small you are. We want a reconciliation with America, but America doesn't want a reconciliation with us."

Is Libya, I asked, ready to turn over the two Lockerbie suspects for trial? His answer, I thought, contained a clue to his procrastination in resolving the problem.

"We have agreed that a trial should take place. Now let us sit down and decide how it can be put into practice. I want to find out the truth about Lockerbie myself. After that, the story will be finished. I am not so concerned about whether the two Libyans are convicted or not. What is important is that the problem come to an end. Twice the number of Libyans have died from the embargo than were killed at Lockerbie. Whether this one or that is guilty or not is the business of the lawyers and the courts. What matters is that once the trial starts, sanctions will be over against Libya. The embargo will be lifted."

He went on, pessimistically.

"Naturally, normal relations between our two countries should be restored. But I am sure that because of America's psychological

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complexes and imperialist designs, such normal relations will not be restored, even if the Lockerbie business is over. America wants to occupy the Gulf of Sirte and the north of Africa. It wants to hand over Egypt and Syria to Israel, so that a Greater Israel is established.

"We have no problems with the West generally. Libya has good relations with Europe. We have European embassies and companies here. But America is different. We are not enemies of the American people. Millions of Arabs, millions of Muslims, millions of Africans are Americans these days. How could we be their enemy? Only imperialist policies prevent our working together. Libya is a victim of American terrorism."

By now Qaddafi was signaling impatience, but before ending our talk I asked about the workings of his government. He pointed out that he holds no official position. Called simply "the Leader," he is not, technically, the head of state. The ministers report to the people's congresses, not to him, and diplomats do not present him their credentials. Western diplomats say he probably has a veto over official acts and that certain security agencies still report to him. Yet few Libya-watchers pretend to understand his precise role.

"I don't rule at all," Qaddafi insisted. "For anyone to say otherwise is baseless. My powers are moral. The people hold me in esteem for my character and for leading a revolution that rescued them from colonial rule. But it is the people who rule."

Indeed, my visit forced me to acknowledge that, contrary to conventional Western belief, Libya is no simple autocracy. Authority is not centralized but diffuse. The people take pride in the power they wield over their destiny. In recent years, the secret police have almost vanished from daily life. Qaddafi told me that outsiders who call him a dictator infuriate him and insult Libyans by implying that they do not govern themselves.

As I rose to leave, Qaddafi said to me in halting English, "I hope you will publish everything, that you will not delete anything." I have, save for repetitions. But my answer, it occurred to me, might have been that if Libya hoped to return to the world community, it would be better served by my not publishing any of it. Youssef, entering the tent, heard me muttering as I left. He still had to report on his meetings in Cairo and would urge Qaddafi to

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be reasonable about Washington's terms. My reaction to the interview clearly upset him.

I was cautiously sipping camel milk in the waiting-tent a few minutes later when Youssef returned. In an urgent tone he reported, "The Leader wants me to remind you that he was not talking officially and that he was not stating policy. He asks you to remember that he is a private person and was speaking from his heart on what he feels. He wants you to see the foreign minister for the government's position on Lockerbie."

OTHER VOICES

I MET Foreign Minister Omar Mustafa Muntasser late that afternoon in his temporary headquarters, a tiny office in a shopping center. Round-faced and bald, smoking a cigar, he spoke with the precision and urbanity one would expect of a seasoned diplomat. Unlike Qaddafi, his manner was calm, his voice low, his style reasonable, and he listened with some bemusement to my account of the meeting with the colonel. Qaddafi, he said, was a revolutionary, while he himself was a bureaucrat—a contrast he did not intend as criticism. Still, he made clear that his approach to Lockerbie—the official position—was very different from what I had heard in the tent.

Muntasser spoke with nostalgia of America's ties to Libya in an earlier day. After World War II, America was extremely popular, he said, and might even have established a protectorate in Italy's wake but for a Soviet U.N. veto. In the 1970s and early 1980s, U.S.-Libyan trade totaled more than $4 billion annually. American companies, he said, ran Libya's oil fields, designed the Man-Made River, and built Libya's major power stations. Hundreds of Libyan students attended American universities.

Reagan, Muntasser said, must have held a grudge against Libya—Qaddafi once mocked him as a "failed actor," he recalled—but Clinton seemed to be different. Several times Muntasser said that Libya wanted to restore normal relations with America, though on conditions of equality.

As for Lockerbie, Muntasser said that he endorsed an open trial in the Netherlands and was confident that a Scottish court would be fair. It will not be proven, he said, that Libya committed the bombing "as

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national policy." He went on to tell me that he was prime minister at the time of the UTA bombing and that it "was definitely not the policy of the Libyan government—though anything was possible."

What Muntasser seemed to be conveying, deliberately or not, was that Libya had more than one center of authority. Several Libyans had talked to me about a "dirty tricks" department that, while not visible on organizational charts, acted with the Leader's authority. Its chief was said to be Abdallah al-Sanussi, Qaddafi's brother-in-law and close confidant, a vigorous opponent of a Lockerbie compromise. Sanussi is on the list of defendants in the upcoming UTA trial in France. Recently, Libyans have noticed that Sanussi has not been seen near the Leader. His low profile may be a Qaddafi ploy, they say. But if he has actually been banished from the inner circle, it might signal an official willingness to surrender the Lockerbie suspects.

After the meeting with Muntasser, Youssef and I left for Tripoli. After five more hours on the road, I checked into a room at the El-Khebir Hotel, which looked out on a parking lot, an expressway, and beyond that, the port glittering with ships. Only in the morning did I learn that the hotel had once been on the water—until city planners created an expensive landfill that ruined the promenade where Italians had loved to stroll. The landfill was only one of many signs of Qaddafi's commitment to wiping out vestiges of the colonial past. Tripoli still boasts a fine Ottoman fort and a souk that evokes Istanbul's covered markets. But many of the old palazzi are gone, having been replaced by flashy skyscrapers and drab high-rises.

In Tripoli I met with Hammouda el-Aswad, head of the National Oil Corporation, the agency that supervises the production and sale of Libya's principal resource. Hammouda, as everyone calls him, is an engineer, about 50, schooled in Libya and Italy. A large man, exuding quiet competence, he offered me an insider's view of what the sanctions meant for the country.

"Libya's oil industry is American by nature," he said. "American companies were the first to explore and produce here, exporting oil to Europe and America. Most of our Libyan staff are American-trained in American know-how. All our production facilities came from America. In fact, we used to have offices in America to purchase equipment and keep an eye on our exports.

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"But America's sanctions in 1986 ended all that. The Americans knew our equipment, and they placed every item on the sanctions list. Then, when the U.N. embargo was imposed in 1992, the problem became even more complicated because we couldn't buy on the open market. Some machinery has been smuggled in, but we've now used up all our stores. We've had to go to junkyards to recondition discarded parts, and we've even attempted to manufacture our own parts, but we haven't been successful.

"The government's long-term plan has been to shift resources into agriculture and industry, but the sanctions limit that, too. We used to get equipment from outside within a few days. Now it takes a year. Travel to the West used to take a few hours. Now, with no planes coming in or out, it's several days. We used to get American technical assistance and American investment, but no longer. Even seeds—we just can't get what we need. So agriculture and industry have not made up for our losses in oil.

"Our OPEC quota is 1.4 million barrels a day, and we're down now to 1.1 million. We have 'standstill' agreements, reserving the rights of American companies to come back. Since they are way ahead of Europe in technology, especially in the enhancement of depleted fields, we need their help. So our objective is not just the lifting of the international embargo but the American embargo, too. With the price of oil so low, we need an economic boost. Libya currently has serious income problems."

THE TWO LIBYAS

LIBYAN SOCIETY seems divided into two sectors, technocratic and tribal. Hammouda symbolizes the first, which, though far from dominant, is growing in influence. This sector aspires to have Libya become a modern country: industrial, open, free, prosperous. Qaddafi, not without ambivalence, represents the tribal sector: jealous of Libya's individuality, suspicious of outsiders, committed to customary ways, Arab rather than global in orientation. He even rules like a tribal chief, grounding his authority in tradition, if not divine right.

No doubt Qaddafi, as leader of the revolution, has contributed much to Libya. He ended colonial rule. He has devoted Libya's sub-

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stantial wealth to building an impressive infrastructure: roads, schools, hospitals, electricity, a water distribution system. He has gone as far as any Arab leader in providing for popular participation in decision-making and in liberating women. He is perceived—correctly, I believe—as personally incorruptible. Yet it seems clear (though I never heard it from a Libyan) that, much like Cuba's Fidel Castro, he has stayed around too long.

I saw no sign during my visit, however, of a serious movement to bring Qaddafi down. The technocrats, though impatient, defer to him as a living legend. Islamic extremists—mostly Libyans who fought in Afghanistan—have committed a few violent acts in recent years, but they have failed to recruit a popular following and seem now to be in eclipse. Although little is known about what goes on inside the armed forces, I saw scant evidence of mutiny.

Nonetheless, I sensed that Qaddafi, though reluctantly, recognizes an imperative to change. If he renounces the role of international bad boy, it will be an acknowledgment that the world—even the Arab world—no longer tolerates the role. Whether he likes it or not, Qaddafi sees that most Libyans also want an end to the provocative policies that have made the country a pariah. A settlement on Lockerbie would be the harbinger of a new season in Libya's national life. In time, Qaddafi will almost certainly endorse it, though grudgingly.

Abdulati Alobidi, the under secretary for European affairs, is the Libyan official in charge of the day-to-day maneuvering over Lockerbie. Esteemed for his candor by Libya's diplomatic community, I met him in the foreign ministry—one of the few surviving Italian mansions on the Tripoli seaside.

Alobidi told me that right after the Security Council voted for sanctions in 1992, Qaddafi established a high-level committee to reopen the channels of communication with Washington. Libya, he said, made repeated overtures to the United States, directly and through allies as diverse as Egypt, Morocco, Italy, and even South Africa's Nelson Mandela. But according to Alobidi, nothing worked.

Libya, he told me, has had more success with the United Kingdom. Although the British had long squabbled with Libya over its arms shipments to the IRA and had cut diplomatic relations in 1984, the two countries maintained informal contacts. Libya, succumbing to British

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pressure, once stopped the shipments, but resumed them after American planes, launched from British bases, bombed the country in 1986. London persisted in its efforts to put an end to the shipments, however, and in 1995 told the United Nations that deliveries had stopped again. Soon afterward, the United Kingdom endorsed the plan for an international Lockerbie trial and pressured the United States to follow suit.

As of last November, when I talked with Alobidi, two points on the trial remained unresolved. The first concerned the site of incarceration in the event the suspects are found guilty. Washington and London have insisted on Scotland. Although Qaddafi still talked of imprisoning the men in Libya, the government seemed willing to accept a Dutch prison.

The second point had to do with the lifting of the sanctions. "Frankly, we don't trust the Americans," Alobidi told me. "Libya is still on the State Department list of terrorist sponsors, though Washington acknowledges that we have not been involved in terrorism for three or four years. We don't want to hear any new pretexts from them for continuing, or resuming, the sanctions.

"The U.N. resolution is tricky on this matter," said Alobidi. "It says that the sanctions will be 'suspended' when the secretary-general reports to the Security Council that the suspects have reached the Netherlands for the trial. It does not speak of the sanctions being abolished. What kind of pressures will the United States put on the secretary-general? Though our people are not dying like the Iraqis, we don't want this matter to drag on, like the Iraq sanctions. What we want is to get the Lockerbie problem behind us. It is the wish of the Leader and the people of Libya to normalize relations with the United States."

In fact, State Department officials say that while they have agreed to suspend the U.N. sanctions when the suspects reach the Hague, they will not lift the 1986 Reagan embargo. After Libya meets its responsibilities to the United Nations, the United States may be willing to open talks on its own sanctions, but it makes no promises. While ending the U.N. sanctions will restore Libya's access to the world's markets and airports, it will not satisfy Libya's need for aircraft and oil field equipment, which only the United States can provide.

On December 5, 1998, U.N. Secretary-General Kofi Annan met with Qaddafi while traveling through the Arab world. Both Libyan and U.N.

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officials had expected a breakthrough. None materialized. Speaking afterward, Annan said, "we have made positive progress. We are on our way to resolving the issue." The State Department acknowledges that Libya's negotiatons have been businesslike and serious, and it has largely refrained from criticizing the process. Without a compromise on incarceration or the U.S. sanctions, however, resolution will be unlikely.

In the meantime, the noose is tightening, seemingly with Qaddafi's acquiescence. Besides Lockerbie, two other pending court cases will help determine Libya's future. For a year now, Germany has had on trial five suspects for the Berlin nightclub bombing; a major witness and defendant is a Libyan who at the time of the bombing was accredited to Libya's embassy in East Germany. And in March, France will conduct its trial of six Libyans—including Sanussi—accused of the UTA bombing. Much of the evidence against them was acquired by a French investigator authorized by the Libyans to work in Tripoli.

The prosecutors proclaim that only individuals will be on trial in all three cases. Yet it seems probable that, directly or indirectly, Libya itself will be implicated in the proceedings. Fanned by angry public opinion, the world is certain to react strongly to findings that Libya was involved in these murderous attacks.

Although all three are potentially embarrassing, the French trial may be the most troublesome for Libya. Qaddafi's brother-in-law, though in absentia, will be in the dock. If convicted, as seems likely, it will be hard not to infer Qaddafi's personal involvement. Qaddafi has suggested a willingness to compensate the victims, but this is unlikely to be enough. The United States, Britain, and France will all have great difficulty putting his acts of violence behind them to move on to friendly relations.

Libyans know they are taking a gamble. They have already placed their chips on two of the trials and seem close to putting them down on the third. They are betting that their prospects for resuming a place in the world are better if they dispose of the three cases, however painful the outcome, than if they continue to express defiance. But with Washington showing no sign of softening, it is not at all certain that the gamble will succeed.

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Lessons for the Next Financial Crisis

Jeffrey E. Garten

LEARNING FROM THE ASIAN DEBACLE

THE TURMOIL in Brazil in January was grim evidence that the global financial crisis that began in Thailand in June 1997 is far from over. Brazil showed that the international community has a long way to go to make the world economy more resistant to the kinds of shocks that have been occurring with increasing regularity. In fact, a recent series of intensive off-the-record discussions with a number of top Washington officials and Wall Street executives who have played crucial roles in the various rescue efforts—speaking not only in their constraining official capacities but also giving their private views—show that while there is some consensus about what happened and why, the major players are badly split over what must now be done. It is as if the global economy has just had a prolonged heart attack. The systemic failure was a total surprise to the doctors, all of whom had previously pronounced the patient not only healthy but robust. But the injured party is still in intensive care, and the physicians are arguing among themselves about the diagnosis and prescription.

To be fair, no one ever really had a clear picture of the global financial system, even before today's crisis-ridden uncertainties. It is not just that over $1.5 trillion in currency changes hands every day, nor that

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understanding some of the newer financial instruments requires a background in quantum physics, nor that the range of market players—from banks to hedge funds—keeps expanding, nor that the variety of countries participating in the global economy keeps growing. Besides all this, there is also a broad range of regulatory, supervisory, and political systems, and there are disputes about what political, economic, and social mechanisms are required to underpin modern capitalism. Not only do these mind-boggling complexities make it difficult to examine what happened and why, but the sense that the worst aspects of the crisis are over could erode the determination of weary crisis managers to take the painful measures necessary to prevent another calamity.

But act they must. The broader picture still looks grim. Developing country growth in 1998 was only 2 percent, roughly half its 1997 level, and is not expected to improve much this year. Private capital flows to emerging markets have all but dried up and will not soon recover. Some 36 countries, accounting for 40 percent of the developing world's GDP, probably suffered negative per capita growth in 1998. All across East Asia and Latin America, the social fabric continues to tear as poverty increases, with unforeseen economic and political consequences. Consider the situation in the five biggest emerging markets. Brazil is on the ropes. Indonesia is on the cusp of social revolution. Russia's economy is still in free fall. China's economic reforms are under great stress as exports slow dramatically, growth rates fall well short of their targets, and regional banks default on foreign debts. India's progress is stymied by internal political paralysis. All this is happening against the backdrop of a 50 percent decline in the growth of global trade from 1997 to 1998 and amid an inevitable slowdown in the United States and Europe, the only two regions of the world where growth rates are healthy.

Worst of all, the crisis has eroded the faith of many up-and-coming nations in modern capitalism itself. Although most foreign officials and business executives are reluctant to publicly voice their deepest concerns, a backlash is quietly building against unbridled economic liberalization and the chaos it has unleashed. The shift can be seen in the dramatic change in the global mindset since the mid-1990s, when so many governments were enthusiastic about concluding broad free trade agreements—in the Asia-Pacific, the Americas, and

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elsewhere. Now not only has the momentum stopped, but the threat of protectionism is mounting.

Considering all this, we must focus our attention on at least three basic questions: Where are the principal areas of agreement about the crisis? What are the fault lines of disagreement? And given these realities, what is a politically workable framework for future policy?

MISTAKES WERE MADE

WALL STREET and Washington do seem able to agree on the following few key areas:

The financial system is not stable. Even a quick glance at the 1990s—the Latin American debt crisis, the European monetary upheaval of 1992, the Mexican bailout of 1994, and now the current debacle—shows that the evolution of a global market has been tortuous. In developing nations in particular, the last two decades reveal increasingly volatile markets and increasingly massive economic damage. While every crisis is embedded in a different set of circumstances—bad macroeconomic policies in 1980s Latin America, excessive private sector debt in 1990s Asia—there are many common elements too, such as unwarranted euphoria on the part of lenders and investors and a rush to the exits when the bubble bursts. There is also solid agreement among Washington and Wall Street leaders that no matter what measures are now put in place, more crises inevitably lie ahead.

The implications of what started in Thailand were badly underestimated. Major mistakes were made in reacting to the Asian crisis. For one thing, nearly all parties failed to correctly appraise the risk of contagion. At the annual meetings of the International Monetary Fund and World Bank in November 1997 in Hong Kong, shortly after the Thai economy started to implode, the consensus was that Indonesia was "safe." Even after Asian problems began to spread, most forecasters did not understand the impact on economic conditions. The IMF alone lowered its forecasts for global and emerging market growth twice in the last three months of 1998. In fact, as late as last summer, concern in the United States and Europe remained muted, and it took the combination of a Russian default and the near collapse of the Long Term Capital Management hedge fund to focus serious international attention on the growing

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problems. The changing rhetoric of President Clinton says it all. In November 1997 he called the Asian crisis a mere "glitch." In October 1998 he called it the most serious financial crisis in 50 years.

Lenders and investors deluded themselves. They stampeded into emerging markets when interest rates were low in the West and potential returns were higher in Asia and Latin America. In the mid-1990s, when new terminology transformed "developing countries" into "emerging markets," lenders and investors got sucked into thinking that the regulatory oversight in these countries was far more sophisticated than it was. They fooled themselves into believing that emerging markets were ready to fully participate in the turbulent world economy.

The nature of contagion was not well understood. In the past, a problem in one country—especially a small one like Thailand—would usually spread mostly to its principal trading partners and to countries in the region. But what happened in 1997 was more complicated. Inflated expectations about virtually all emerging markets had been building for several years in financial institutions around the world. When lenders and investors saw these hopes dashed in one country, they were quick to downgrade all other nations in the same category. In other words, contagion was as much in the mind of lenders and investors as in the markets themselves. Moreover, bankers and officials underestimated both the downward pressure on global commodity markets from the collapse in demand in Southeast Asia and the impact this would have on the many other emerging markets that are major raw-material exporters. And governments and markets alike failed to understand that in a crisis, market risk, credit risk, and political risk would all blend together. They were also taken aback by how quickly liquidity would dry up in a situation in which so much lending and investing was short-term and comprised of securities rather than conventional banking transactions.

The initial diagnosis missed the mark. The first analyses of the crisis in Southeast Asia failed to take enough account of the private-sector roots of the crisis—not government finances as much as overindebtedness of local corporations and poor debt and currency management on the part of local banks. The early assessments of the situation in Japan were also overly optimistic; some Western officials mistakenly thought that Japan would rescue Thailand the same way the United States helped Mexico in 1995.

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All risk management systems failed. The risk assessment and risk management of foreign lenders and investors in emerging markets—both in private institutions and in governments—failed to foresee the buildup of unsustainable financial leverage. The IMF monitoring system did just as poorly. Everyone agrees that all these mechanisms need strengthening, and no one denies being totally surprised by the way that markets seized up and closed down in August and September of 1998—even in the United States, where the economy was so strong.

New financial players changed the rules of the game. Global finance is no longer a cozy club of finance ministers, central bankers, and big commercial banks. The Asian crisis revealed a much wider group of players. The evolution is clear: in the first two decades after World War II, foreign aid and other "official" capital was the main source of funds flowing to developing countries. In the 1970s and 1980s, commercial banks became the primary source. In the 1990s, a much larger cast took the stage: insurance companies, pension funds, hedge funds, and mutual funds. Future financial crises will increasingly involve securities markets, with their multiplicity of instruments, markets, trading strategies, and global linkages. All this will make crisis management infinitely more complicated because there is no one mindset at play, no one set of regulators, and no way to negotiate anything with so many diverse parties. Moreover, many participants who have not one iota of genuine interest in a country or the "global system" will flee at the first sign that the good times are over.

Investors fooled themselves about emerging markets.

Local politics are crucial. In retrospect, Wall Street and Washington now realize the overwhelming role that domestic politics played in frustrating crisis management. The Thai bailout unfolded amid a constitutional crisis, the South Korean rescue during a leadership transition, the Indonesian package amid widespread rioting that eventually led to the downfall of a dictator, and the Russian plan while the government was crumbling. It is now better understood that a successful stabilization and restructuring package cannot be forced down a country's throat. One of the enduring images of a mistaken approach is likely to be the photo carried in major newspapers of the IMF's managing director, Michel Camdessus, arms defiantly crossed

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over his chest, standing over former Indonesian President Suharto as the latter reluctantly signed an IMF agreement that was soon to collapse.

Transparency, information disclosure, and adequate financial regulation were sorely lacking. There is no controversy in principle about the need to strengthen the financial systems of individual countries via more accurate and timely financial reporting, tighter financial regulations, and better corporate governance of private-sector banks and companies. The fact is that emerging market countries often have not disclosed their true reserves or their total liabilities in a regular and up-to-date way. Their lax banking supervision and corporate oversight fell far short of what was necessary for an open global economy.

The IMF, mistakes notwithstanding, was and remains crucial to economic stabilization and recovery. Despite all the controversy surrounding the IMF's policies and the withering criticism of several highly respected economists, the overwhelming weight of opinion on Wall Street and in Washington favors strengthening the fund. Not everyone agrees on the exact nature of its role, but all believe that some global institution needs to be in the center of the storm and that it is wiser to use the IMF as the starting point than to craft something altogether new.

In sum, while many serious mistakes were made, there is broad agreement on the need to strengthen the global financial system so that it is as strong as some of the better-run national financial systems. And there is no doubt, either, that this is among the most difficult public policy challenges of our times.

THE BATTLEGROUND

IN SOME CASES, key officials diagnose the financial crisis differently; in others, they disagree on the details of implementing the next steps. Among the main questions being argued over are the following:

Were the IMF stabilization packages poorly constructed? The fund's many defenders say that it did the best it could with the information available at the time, particularly given the fact that countries came to it late in the game and agreed to its programs only well after the crisis became advanced. For its part, the IMF itself conceded in January that it had been too sanguine about the prospect of a serious economic downturn and that its assessments of the markets' response had been

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flawed. But there is still serious criticism, too, and it goes like this: The IMF was too focused on defending fixed exchange rates. In so doing, it let speculation build up, which eventually forced the rates to collapse anyway but also did more damage to the country in question than would have happened had devaluation occurred at the outset. The IMF failed to see that the Asian crisis was primarily about excessive leverage in the private sector. In forcing tighter fiscal and monetary policy, the fund precipitated widespread bankruptcies where there were not effective bankruptcy laws and killed the growth that would have been essential for private-sector restructuring and recovery. Some critics further argue that the fund should have been far less intrusive, focusing on stability first and phasing in large-scale restructuring of the economies later; others accuse the IMF of failing to take societal needs into account, thereby sowing the seeds for political problems for years to come.

Is it a mistake to push financial liberalization in emerging markets so fast? For several years the conventional wisdom in Washington was that emerging markets should quickly dismantle financial controls on all kinds of capital inflows. This free market doctrine was mirrored by similar calls to lift restrictions on trade and to hold democratic elections. Everyone now realizes that emerging markets were walloped by the quick exit of short-term capital, but there is no consensus on whether capital controls on short-term inflows should be encouraged in the future. Some key officials still hold that full financial liberalization is the least bad alternative and that the imperative now is to move ahead simultaneously with financial liberalization and the shoring up of domestic financial systems. But many others believe this approach is now discredited, that adequate domestic regulation in emerging markets will take many years at best, and that some controls on incoming short-term capital are essential.

What are the relative roles of the public and private sectors? Officials argue intensely about the issue of "moral hazard"—the awkward term used to signify the danger that lenders can be reckless because they feel assured that the government will bail them out. A key dispute revolves around the question of who should construct rescue packages—the IMF and governments alone, or these public entities along with private lenders and investors? (Here, private participation could mean some

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combination of maintaining credit lines, providing new money, and negotiating debt-restructuring agreements.) Some Washington politicians need to show the voting public that private lenders and investors are suffering some losses from the debacle and that government funds are not just being used to bail out Wall Street. But beyond that, many see that the problems in emerging markets were in large part caused by overlending and overinvesting by the private sector, which therefore has some responsibility for cleaning up the mess it created.

Some in Washington want to show voters that they are not just bailing out Wall Street.

Many on Wall Street view the problem differently. Some think that Washington is riveted excessively on commercial banks and not enough on the plethora of other lenders and investors who would, in any event, never participate in rescue packages—either because it is just not part of their mindset or, as in the case of pension funds, because they have a legal obligation to withdraw their money when indices change. Some top bankers think that IMF and government officials are misreading the nature of markets altogether. They reject the notion that the private sector does not sustain losses; after all, their shareholdings and share prices plummet. In addition, these executives believe that the IMF packages are and should be short-term measures that help emerging markets reenter private markets, without which developing countries cannot grow. In this respect, if things go well, bankers expect once again to be lending, investing, and taking more risks, all of which they see as another part of sharing responsibility.

Washington and Wall Street also disagree on the proper balance between public and private responsibility for providing better financial information on emerging markets. Private lenders and investors want the IMF to make public the information it obtains from emerging market governments. The IMF fears that in doing so, its sources of reliable information as well as its sensitive political relationships will be destroyed. So while everyone wants more and better information, there is little consensus about who should collect it, verify it, or make it public—and beyond that, on whether the information should be used voluntarily by market participants or whether they should be pressured by supervisors to do so.

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How long will it take for emerging markets to recover? More than a dispute among economic forecasters, this question reflects different views about the depth of the problems in emerging markets. Many private lenders believe that a number of emerging nations can return to the markets reasonably quickly, albeit with higher borrowing premiums. But even if this happens, others are looking beyond the rhetoric of "building a new architecture for the global financial system" and asking hard, practical questions about the system's plumbing and electrical work. In their view, it could take years to establish sound regulatory systems, train banking and stock market regulators, and create an environment for rigorous credit analysis in local banks and investment houses. For them, the big question is whether the international community has the patience to roll up its sleeves and address these hard realities or whether it will take the fact that emerging nations are reentering global financial markets as a sign that it is again time for business as usual.

Did Washington adequately factor foreign policy considerations into global financial management? By all accounts the State Department was at the table when most of the critical issues in the crisis were discussed. The National Security Council weighed all the views, although there may have been some needless and counterproductive overlap between its work and that of the National Economic Council. But on many important questions, the State Department's advice was decisively overruled. For example, when Thailand asked for immediate assistance from individual governments in the early stages of its implosion, the department argued that the United States had to join others like Japan in coming to Thailand's aid since it could not abandon an ally in times of such stress. This advice was not followed, and the United States did not contribute to the aid package. When Japan offered to put up $100 billion as part of an Asian fund, State Department officials argued that the United States should negotiate some arrangement with Japan rather than kill the proposal. It was ignored again. In the case of Indonesia, the State Department called for a less intrusive approach to restructuring out of fear of massive social unrest—and yet again it lost the argument.

U.S. diplomacy during the crisis revealed a gigantic gap. When Asia blew up, the Treasury Department had the crucial relationships with finance ministers and central bank directors and understood

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both the technical details and policy issues. On the other hand, there were two levels of policy questions: one relating to stemming the economic hemorrhaging and another relating to political stability, alliances, and longer-term questions about Asia's and Russia's place in the broader international system. The State Department was ill-equipped to lead on the former, and the Treasury Department had neither the mandate nor the expertise to focus on the latter.

THE FIREWALL NEXT TIME

THERE IS, of course, no panacea for global financial crises. By nature, financial calamities are messy affairs; all players scramble to cover up their mistakes and protect their interests, and there are always intense conflicts between creditors and debtors and between government and private sector participants. But the key players ought to be able to agree on a plan of action. The following is the kind of framework that might gain acceptance; it is not a set of original ideas but an attempt to synthesize various Wall Street and Washington views and recommendations into an effective program that could be broadly supported. To be sure, this is not a dramatic set of proposals (it does not, for example, include a global central bank, which some have advocated), but it is still a great improvement over where things stand now—and it is politically realistic.

The crucial challenge facing policymakers and financiers is the development of a stronger infrastructure for global capitalism. When all is said and done, the world economy is crisis-prone because it is evolving at breakneck pace and has many seriously weak economic and political links. The crisis was the fruit of a general overestimation of the strength of the framework for global finance and—in Washington, at least—a hubristic belief that emerging markets would adopt American-style capitalism and were close to doing so. Blind faith in the "magic of the market" replaced any historical perspective about what countries needed to do to build solid modern banking and regulatory systems. In addition, the regulatory systems of the advanced countries and those that have been emerging on a global scale—such as the prudential standards required by the Bank for International Settlements (BIS), the Swiss-based consortium for key central banks—all proved inadequate.

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If the crisis does anything, it should bring home to us the awesome amount of infrastructure that must now be built. For emerging markets this will mean a generation of training in financial regulation, supervision, and the creation of bankruptcy laws and systems of corporate governance. For advanced nations it will require prudent supervision of the buildup of leverage by major lending institutions, including their exposure to hard-to-regulate hedge funds. On a global scale, close coordination among international financial institutions will be essential.

For starters, responsibility among international institutions needs to be delineated more clearly. The infrastructure for globalization cannot be built if global financial institutions are at odds with one another, as the IMF and the World Bank have been when constructing some of the rescue packages. The IMF should focus on financial stabilization, rescue packages, collection of information on fiscal and monetary policy, and tighter economic monitoring. The BIS ought to have oversight for banking and financial regulation. The World Bank is best positioned to handle issues such as social safety nets, bankruptcy procedures, and corporate governance. Regional institutions such as the Asian Development Bank should work with countries in their geographic and cultural vicinity to create peer review processes, identify "best practices," and oversee educational and training forums for emerging market economic officials. In addition, regulators of all countries should coordinate much more. A board of regulatory overseers, established under the auspices of the BIS and designed to spot gaps in the system and monitor progress toward closing them, would be a good idea, but setting up such a board should not be confused with getting the plumbing right in individual national systems.

Moreover, market mechanisms ought to be used as much as possible to discipline excessive lending and borrowing. There should be little controversy about the need for developing countries to publish more information sooner. The wrangling over whether the IMF should take the lead in this area, given the risk of undermining its confidential relationships, could be addressed by having the fund develop an extensive template for information and its timely disclosure. Emerging countries could fill in the blanks voluntarily, and the information could be verified by the IMF. The market would likely ensure that those

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governments that do not wish to participate would forfeit new loans and investments, but individual governments would have to choose whether to put themselves in this position. The IMF, however, would not be obligated to disclose the substance of discussions about policy intentions, which would remain confidential. The statistics thus provided would, of course, guide lenders and investors. But this will not be enough. Supervisors in advanced countries also ought to use this information in discussions with those who are being regulated—a move that would further concentrate the minds of lenders.

The world needs to walk away from countries unwilling to make serious changes.

Regulators also need to get a better handle on the leverage exercised by hedge funds and other unregulated entities. One way to do this would be to require banks and other institutional lenders to fully disclose their positions vis-à-vis hedge funds to regulators. The lending institutions could then no longer hide behind a professed lack of information on what the hedge funds are doing. Since banks and big financial institutions provide the bulk of the money that can be leveraged, hedge funds would automatically be reined in. In addition, there could be more self-regulation among issuers and traders of derivative instruments. Industry guidelines and standards for disclosure would be very constructive—so long as there is some peer-group enforcement.

In a more market-oriented system, governments and the IMF would have to recognize that it is unrealistic to pressure private lenders to stay in the game when a crisis flares. Even if arms could occasionally be twisted, the ill will that would be engendered is not worth the cost. In any event, the global financial system is too porous to enforce such burden-sharing, and the long-term cost will discourage important lending in the future.

This is not to say that governments and key private sector participants should not try to work closely together; as in South Korea, there may be opportunities to link government financial help to private sector debt restructuring. Nor is it to say that governments will always bail out the private sector. Governments and the IMF need to walk away from countries that are not interested in serious policy adjustments, as they did in the case of Russia.

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As for controls on incoming short-term capital, it would have been wiser, in retrospect, for emerging markets not to have liberalized their financial systems as fast as they did. But reimposing controls would be too difficult to effectively manage; better to seek more market discipline on lenders and borrowers via information disclosure and shrewder overall financial regulation and supervision.

More important than capital controls, which are hard to implement and which create their own distortions, is the establishment of effective bankruptcy laws in emerging markets. More crises are sure to occur, and countless firms will be rendered insolvent unless there are formal, legally mandated restructuring procedures in place. The orderly restructuring of failed enterprises is a fundamental institution of capitalism, but the adequate systems for doing so simply do not exist in most emerging markets.

Much more attention must also be given to strengthening the overall global financial system. Emerging markets are relatively small boats in a turbulent sea. Thailand and its neighbors were whipsawed less by their own policy mistakes than by factors well beyond their control. These included dramatic currency realignments that undermined their competitiveness and grave economic mismanagement in Japan, which accounts for more than half of Asia's GDP. Japan's blunders led to the closing of important export markets for Asia's emerging countries as well as a withdrawal of lending by Japanese banks. In addition, global macroeconomic policy was too restrictive after the crisis broke; central banks in advanced countries were slow to grasp the magnitude of the global problem that was emerging. Federal Reserve Chairman Alan Greenspan admitted for the first time that the United States could not prosper in a world of chaos only in September 1998—15 months after the crisis broke—and he had to lower interest rates thrice in rapid succession.

An emphasis should also be put on crisis prevention. Once a crisis flares—once it hits *The New York Times*—there are almost no good alternatives. Chaos reigns, decisions have to be made in the absence of decent information, and politics becomes unmanageable. All this puts a premium on addressing problems at their earliest stages. The Brazilian package of late 1998 was, of course, designed to be preventative, and it faltered because of domestic politics. The lesson is that

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prevention requires both external and internal preparation. Nevertheless, the efforts of the IMF and others did buy Brazil time and prevented a blow-up on the heels of the Russian and Long Term Capital Management debacles.

The world needs to do better next time. Several preventive measures could be taken. For example, while the controversy over the right exchange-rate regime may never be resolved, this much can be agreed upon: If emerging markets want fixed exchange rates, their commitment to hold firm must be highly credible. This means either a currency board in which all local currency is exchangeable into hard currency reserves—in dollars, euros, or yen—or participation in a regional currency arrangement. Otherwise, a country should have floating rates. Anything in between is too dangerous. The worst of all worlds is to devalue in a panic. Counseling emerging markets on how to establish one of these two regimes should therefore be one of the IMF's principal responsibilities. Doing so will build bulwarks against the next market attack.

The IMF should begin raising funds for future bailouts soon, not when the next disaster strikes.

Another way to help ward off crisis is for emerging markets to hold much larger currency reserves. Those that did so fared best in this crisis. After all, modern crises are likely to arise quickly and fiercely through capital markets. As part of this strategy, countries should emulate Argentina and line up large credit lines to bolster their positions in advance of a meltdown.

A third preventive measure is for IMF rescue packages to be substantial and credible. The IMF should begin raising funds for future bailouts soon—and not on the eve of another debacle. Strikingly, the IMF's resources are much smaller than they used to be relative to the global economy. After the current capital expansion is complete, the fund's resources will total around $275 billion. But were the ratio of these funds to global GDP the same as it was in 1945, the amount would be closer to $800 billion.

Prevention also means that governments need to be encouraged to go to the IMF for help at an earlier stage. If more information is disclosed and private lenders and investors withdraw in the face of a deteriorating

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situation revealed by the new numbers, countries at an early stage of crisis may have no choice but to approach the IMF sooner rather than later. To make sure this happens, however, the fund could hold out incentives of loans at lower rates for countries who come in for preventive reasons.

Given what we now know about the unpredictable nature of contagion, as soon as there is a hint of crisis it makes sense to shore up other countries that have similar features or are nearby. When Thailand devalued the baht, the IMF, to its credit, was quick to conclude a deal with the Philippines, which to this day has done much better than most of its neighbors. When Brazil devalued its currency in January, the IMF immediately offered help to Argentina and Mexico.

Finally, there could be more contingency planning in the global financial arena. Such exercises might be run discreetly by the BIS and its membership of central bankers. Very little of this goes on now. As with planning for war, the odds of getting the scenario right are slim. But practicing readiness ensures that the troops remain alert at all times.

GIRDING FOR THE NEXT DISASTER

THE PROBLEMS—and remedies—go beyond economics. The worlds of finance and foreign policy need to be bridged. In the end, many of the biggest problems with financial management are political: crony capitalism, corruption, too much or too little government involvement, and government resistance to taking certain risks to change policies. Countries have memories, too, and if treated too harshly, enmity could emerge another way at another time.

Better financial diplomacy could ease economic and political turmoil. Countries must "buy into" the stabilization program at hand, which may require extensive negotiations. The style and gravitas of the senior negotiator could make a world of difference both in a country's willingness to accept a stringent adjustment program and in the IMF's understanding of the legitimate political constraints on the governments with which it is dealing. Enlisting former top officials from treasuries and central banks and assigning them to the IMF to work with the most senior public officials in emerging markets could help erase the perception that the IMF is sending a staffer who, despite

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impeccable academic credentials, has never borne operational burdens in a tumultuous economy.

Second, there ought to be more of a distinction made between stabilization and restructuring. Much of the latter should be done in steps, not all at once. The wholesale and immediate restructuring that is being asked of Asian economies would be totally unacceptable in the West—the equivalent of demanding that, say, the United States cut expenditures, raise taxes, change its banking regulations, and restructure its *Fortune* 100 companies. Sometimes the desired changes are simply not feasible without making the problem much worse—for example, forcing bankruptcies in Thailand, which lacks effective bankruptcy laws. Such changes will eventually be necessary, but the sheer intrusiveness of the conditions will probably either make the initial crisis worse and necessitate a much longer bailout period or engender social turmoil.

Third, leadership is needed to manage the financial system. Even allowing for the fact that markets cannot be dictated to, there are far too many actors for any coherence. Someone has to lead. For better or worse, that has to be the United States. Neither the tradition of leadership nor the mechanisms exist for this in Europe or Japan, and international institutions do not have the clout. But taking the lead in financial diplomacy is no easy task. It would require more U.S. efforts to bring in other nations with resources, such as Japan, the European Union's members, or even China, with its substantial reserves and influence in Asia. It would also entail enlarging the G-7 to include several key emerging countries, such as China, Brazil, and India, and making a reinvigorated G-10 or G-15 the overseer of the global financial system.

Washington, however, is not yet ready to lead. The State Department's historic tendency to downplay the importance of economics in foreign policy runs deep in its culture, but that will have to change radically if America's broad foreign policy interests are to be served. This means major shifts in the way young foreign service officers are selected and trained. It means selecting more ambassadors with the experience necessary to report on and operate in an environment of continual economic turbulence. Global leadership in an era of economic and financial turmoil also has major implications for the way the State Department is organized, including the need to vastly

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enhance the influence of the under secretary for economic affairs in the councils of whatever administration is in power.

Equally daunting is the need to change Congress' behavior. In conducting global financial diplomacy, America's Achilles' heel is that, at the very time that such efforts are becoming more complex, not only is there frighteningly little knowledge and interest in Congress about them, but there is not a majority in either political party for active U.S. global engagement. Just look at congressional positions on the adequacy of IMF resources or on granting the White House "fast-track" negotiating authority for trade pacts. America simply will not be able to lead if it is hamstrung by an inward-looking Congress.

We should also not forget the sine qua non for American leadership: an exceptionally strong economy and globally competitive U.S. firms. Whatever may be said about American behavior in the Asian crisis, it has been an enormous advantage to the United States to have been able to face the challenge with low inflation, low unemployment, a budget surplus, and strong corporate performance. No amount of rhetoric or willpower can substitute for these kinds of conditions.

It will not be easy, but the global community can do significantly better at minimizing the frequency, severity, and scale of financial crises. A series of meetings coming up—the IMF–World Bank interim meeting in April, the G-7 summit in June, and the annual IMF–World Bank meeting this fall—could provide a consensus and an action plan before the millennium arrives. Reorienting and strengthening the base of American financial diplomacy could begin with the 2000 elections. Every course has its risks, and lessons learned in one crisis will never provide the full script for addressing the next, but they can surely help. The direst threat to the world's ability to learn from what has happened, however, is neither a paucity of first-rate talent in Washington and on Wall Street nor a lack of good ideas. Rather, the biggest problem is that the current crisis might appear to be abating, thus lulling everyone into moving on to other issues. That would be an immense tragedy, for the one certainty is that we have not seen the end of serious global financial turmoil.

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A Self-Help Guide for Emerging Markets

Martin Feldstein

FIGHTING THE ASIAN FLU

LIKE DEATH and taxes, international economic crises cannot be avoided. They will continue to occur as they have for centuries past. But the alarmingly rapid spread of the 1997 Asian crisis showed how shifting perceptions alone can disrupt even fundamentally stable countries. In the wake of Russia's default, skyrocketing interest rates in emerging markets underlined these economies' vulnerability to investor skittishness. Unfortunately, there is no international "911" that emerging markets can dial when facing economic collapse. Neither the International Monetary Fund (IMF) nor a new global financial architecture will make the world less dangerous. Instead, countries that want to avoid a devastating rerun of the 1997–98 crisis must learn to protect themselves. And self-protection requires more than avoiding bad policies that make a currency crisis inevitable, for the threat of contagion makes even the virtuous vulnerable to currency runs.

Liquidity is the key to financial self-help. A country that has substantial international liquidity—large foreign currency reserves and a ready source of foreign currency loans—is less likely to be the object of a currency attack. Substantial liquidity also enables a country already under a speculative siege to defend itself better and make more orderly financial adjustments. The challenge is to find ways to increase liquidity at reasonable cost.

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The need for enhanced liquidity stems from the inevitable absence of an international lender of last resort—a dependable source of credit when a country needs additional foreign currency. This is not the case within a national economy, where the central bank provides liquidity to the banking system. A solvent commercial bank—one with assets that exceed its liabilities—does not have enough liquid assets to pay depositors if they were all to demand their funds at once. But a central bank can prevent a run of depositors on the bank by following the advice provided more than a century ago by British economist Walter Bagehot: to lend "freely, at penalty interest rates, on appropriate collateral."

However, there is no international equivalent that lends a stable foreign currency to temporarily illiquid but ultimately solvent countries that could eventually repay loans with export earnings. Although the IMF has organized large credit packages for the crisis-stricken countries, it does not "lend freely" at a time of need. Instead, it disburses its funds gradually as the stricken countries meet a series of detailed conditions. Because the IMF's conditions are onerous and complex, private creditors will not know whether funds will actually be available. The IMF packages therefore cannot bolster confidence that the country will have enough foreign exchange reserves to defend itself against future speculative attacks. Another fundamental difference between the IMF and national central banks is that a national central bank can create as much domestic currency as its banking system wants, whereas the IMF's ability to provide dollars or other currencies is constrained by its limited capital.

True, the G-7 announced a plan in October 1998 for an "enhanced" IMF lending facility that would disburse funds quickly to countries before a crisis occurs. But it would make funds available only to "pre-approved" countries who were "pursuing strong IMF-approved policies." None of the ill-fated Asian economies would have passed this test in 1997. In practice, the IMF's new approach might simply try to impose the same kind of intrusive economic restructuring as it did in the post-crisis plans in Asia. (See my "Refocusing the IMF," *Foreign Affairs*, March/April 1998.) But if it did, few countries would likely participate. The recent Brazilian devaluation also suggests that the new plan would fail. The IMF inaccurately described its November 1998 loan to

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Brazil, which did not formally belong to the G-7 arrangement, as "preemptive." Although some of the funds were available immediately, the rest were to be parceled out only conditionally as Brazil met a variety of stringent fiscal conditions. This lack of dependable liquidity may explain why Brazil was forced to devalue its currency just two months later.

More generally, the G-7 proposal is fundamentally misconceived because it does not recognize that most emerging market countries need increased liquidity long before the crisis stage to reduce their risk of crisis. Even with its recently increased capital, the IMF does not have the funds to finance such a plan. Nor is there any plan to assure private-sector involvement in rolling over short-term debt, as the G-7 assumes would happen. True, its other proposal—that national governments force private creditors to continue lending to a crisis-ridden country—would diminish an investor's tendency to lend irresponsibly in good times, or the so-called "moral hazard" problem. But the fear of being locked into risky and deteriorating loans would also substantially reduce the long-term availability of credit to emerging market economies. Instead of establishing a new global financial architecture, the world needs new ways for emerging markets to increase their own international liquidity.

IT PAYS TO BE FLEXIBLE

FIRST, IT is important to understand how exchange-rate policies helped frame the Asian crisis. Before the 1997 turmoil, many of the soon-to-be-stricken countries attempted a fixed-rate policy—pegging their currency to the dollar to achieve a lower cost of credit and a low rate of inflation. While their intentions were noble, they forgot a basic economics lesson: when it comes to exchange rates, flexibility holds many advantages. Although sharp swings can debilitate national economies, normal fluctuations help by reallocating global capital to better uses. For example, if Mexican business investment becomes more profitable, higher demand for credit will drive up Mexican interest rates and make Mexican stocks more attractive. Foreign investors then buy pesos to invest in Mexican stocks and bonds while foreign companies buy pesos to acquire or build more businesses in Mexico. Rising demand for the peso strengthens the currency

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and reduces Mexico's exports (by making them relatively more expensive) and increases its imports (by making them relatively cheaper). In short, the stronger peso provides an extra flow of capital to invest in local businesses. By extension, when Mexican investment becomes less profitable, investors sell the peso and direct capital to other countries where it can be used more productively.

In guiding global capital flows, currencies function like stocks, bonds, and other financial assets. Investors choose these financial instruments in different currencies on the basis of the expected yield and associated risk. Investors buy a currency that they expect to rise in value and sell one that they expect to fall. A higher interest rate attracts funds to a currency unless its value is expected to fall fast enough to wipe out the interest rate advantage.

Emerging markets need increased liquidity long before the crisis stage.

Importantly, you do not need to own a currency to sell it. Foreign investors who think the peso will fall against the dollar can borrow pesos, sell them for dollars, and then invest the dollars; they then expect to sell their dollars after the peso's fall and repay the original peso debt with cheaper pesos, a strategy known as "selling short." This means that peso borrowers, not just domestic residents and foreign investors who own the currency, can drive the peso's value down. Hence, expectations often drive exchange rates, causing the fluctuations in currency values to be large and rapid.

The Asian experience shows how much serious damage a sharp currency drop can cause by increasing the relative value of foreign-currency-denominated debt. When the Thai baht fell from 25 baht to the dollar in June 1997 to more than 50 baht to the dollar in January 1998, that meant that the number of baht that a Thai company needed to repay its dollar-denominated debt more than doubled. In addition, a falling currency raises the price of imports and allows domestic producers to raise prices as well. This sparks higher inflation unless the government raises interest rates, which depresses domestic production and employment still further. The larger a country's trading sector, the more acute the problem becomes, especially for small economies with large flows of exports and imports. In the end, many governments try using foreign exchange reserves and monetary policy to avoid

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what they see as unfounded currency declines or to slow the process of adjustment. This means that if private investors want to sell that currency, the government may use its dollar reserves to buy it or raise interest rates to induce investors to keep the currency.

To complicate matters, many governments control their exchange rates to maintain a noninflationary monetary policy. Since a lax monetary policy that causes inflation also erodes the value of the national currency, a government that commits itself to a fixed exchange rate against the dollar is implicitly committing itself to the same low inflation rate as the United States. If domestic business and labor believe in this commitment, they will be less likely to try to raise prices and wages. Although a government could achieve low inflation in principle without such an external anchor, governments have often found that this is a useful way of reducing inflation and keeping it down. Despite this virtuous intention, however, fixed-exchange-rate policies often precede a currency crisis by causing an explosive trade deficit.

BAHT HUMBUG

THERE ARE actually four distinct causes of financial crises: an unsustainable current account deficit, a balance-sheet crisis, a banking implosion, and irrational "contagion" turbulence. Enhanced liquidity can address all of these ills, but the trick is achieving that extra liquidity at an acceptable cost.

Thailand, the first country to succumb to the Asian financial flu in 1997, offers a classic example of a current account crisis. Thailand fixed its exchange rate at 25 baht to the dollar in 1987 and promised to use whatever policies were necessary to keep it there. But by the mid-1990s the baht was grossly overvalued, causing a current account deficit—the trade deficit plus the net interest due on foreign debts—equal to eight percent of Thailand's GDP, one of the highest anywhere in the world. How did this happen?

A current account deficit must be financed with an equally large inflow of funds from the rest of the world. Because the Thai government promised a fixed baht-dollar exchange rate, Thai banks and businesses felt comfortable borrowing dollars to finance activities in Thailand. Similarly, foreign creditors were willing to lend in order to

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reap the yields of the slightly higher Thai interest rates. The banks and the foreign lenders did recognize the risk they were taking: the huge current account deficit could be sustained only as long as foreign investors and lenders kept sending money to Thailand and increasing their total Thai exposure. If the day came when they were no longer willing to do so, the current account would have to shrink to whatever could be financed with available capital inflows. In turn, reducing the current account deficit would require a fall in the baht to make Thai exports cheaper and imports more expensive. The cheaper baht would hurt those Thai banks and businesses that had borrowed in dollars. Foreigners who lent baht would also lose, as would those who lent dollars to Thai banks and businesses now unable to repay their dollar obligations.

In 1997 this potential risk became a reality. Eventually fear began to outweigh greed, and foreigners became too nervous to keep lending. As the baht began to fall, other skittish investors with baht assets sold baht as well. Others borrowed baht in order to sell it on the assumption that the baht would continue to slide. The government tried to support the currency but eventually exhausted its foreign reserves. By the time the baht stopped falling, it had plummeted by more than half.

What Thailand forgot was that a fixed exchange rate set too high inevitably causes a ballooning trade deficit, followed by an attack on the currency, a loss of foreign exchange reserves, and a corrective fall in the exchange rate. Thailand could have avoided exhausting its reserves and eased its painful adjustment had it abandoned the fixed exchange rate earlier and allowed the baht to settle at a more appropriate level in the market. (By the end of 1998, the market panic had indeed subsided and the baht had settled at 36 baht per dollar.) But while it is easy to criticize Thailand in hindsight, many other countries still refuse to abandon fixed rates or opt for a devaluation, fearing the resulting inflation, steeper interest rates, and greater foreign debt burdens. These countries cling to the hope that an overvaluation might correct itself without a change in the nominal exchange rate if domestic prices fall or if the dollar slips. This strategy worked for Argentina, which maintained its "overvalued" fixed dollar-peso exchange rate during the past decade and stayed competitive because its domestic producers lowered the cost of Argentine goods by increasing

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productivity. And an overvalued currency and current account deficit can temporarily help keep import prices down and export prices up while providing a capital inflow to finance profitable domestic investments. But Thailand's time had run out. After more than a decade of current account deficits, Thailand mistakenly hoped that it would be able to go on financing them and boost its productive capital rather than sustaining them with domestic savings alone. Ultimately, financial realities made a baht devaluation inevitable, especially after Japan's economic slump and declining yen sharply reduced Japanese demand for Thai exports.

However, a country with sufficient liquidity—namely, large foreign exchange reserves and access to additional dollar or yen credits—can try to sustain the high value of its currency by buying it, maintaining or even raising its value temporarily to "punish" speculators and others who bet that the currency will fall. Speculation against a currency is expensive because the interest rates on the currency being sold are often substantially higher than the rate on the dollar or yen. Since speculators have much to lose if the currency does not weaken, they bet only against currencies that look particularly vulnerable. Large reserves and access to substantial additional foreign loans can reduce that vulnerability and increase confidence in the currency, thereby reducing the likelihood of speculation—but this requires much larger reserves than most emerging market countries have traditionally held. In the end, the decision whether to devalue is more than a purely economic issue with a technically correct, IMF-prescribed solution. It is a balancing act of risks that is the essential responsibility of a sovereign government.

WON OVER

A COUNTRY with a floating exchange rate and a current account surplus could still come under attack if its short-term foreign currency debt exceeds its foreign currency reserves. It may be solvent in that it can service that debt with future export earnings, but it remains temporarily illiquid because it lacks the funds to meet its immediate obligations. If foreign creditors have confidence in the country and its currency, they will continue to roll over the short-term debts or extend their maturity. But if enough foreign creditors worry that the country will not meet its obligations because other foreign creditors

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will not continue to lend, the government is forced to default, reschedule its loans, and devalue its currency to increase export earnings enough to repay its debts more quickly.

South Korea met this fate in 1997. After it deregulated part of its banking system in the early 1990s, some investment banks used their new freedom to borrow foreign currencies with short-term maturities (less than one year) and invest those funds in Korean won assets and high-risk, high-yielding foreign securities like Russian bonds. By late 1997, the value of these short-term obligations far exceeded the government's foreign currency reserves. Nervous international investors saw this disparity on South Korea's balance sheet and began shedding won assets. South Korea could have stopped its inappropriate foreign borrowing and earned enough foreign currency on strong exports to repay the existing foreign obligations. But it could not have done so quickly enough if all foreign creditors had demanded payment promptly and refused to roll over existing obligations. In short, South Korea was solvent but illiquid—that is, able to meet its obligations in the longer run but unable to do so immediately.

Had South Korea not allowed its foreign exchange reserves to deteriorate so much, no crisis would have erupted. But global financial markets saw that it lacked liquidity and that a won devaluation was likely to occur. As a result, they sold won assets or borrowed won to sell for dollars. Before the end of the year, the currency collapsed and the economy's precarious health was in the hands of the IMF.

TAKE THE MONEY AND RUN

ANOTHER CALAMITY that plagued many Asian countries in 1997 and 1998 was a widespread collapse of the banking system, often in tandem with the other crises described above. Many of these failures stemmed from a rise in the burden of dollar-denominated debt following a decline of the local currency versus the dollar. The plummeting currency also hurt banks with dollar-denominated loans (as in Thailand) because corporate borrowers had dollar debts but only local currency income.

Often a banking failure was waiting to happen even before the currency turmoil. Many Asian banks had accumulated so many bad loans and poor investments that their liabilities exceeded the true value of

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their loans and other assets. Banks can retain deposits only as long as depositors trust that they can withdraw their funds on demand. When depositors get nervous that a bank will be unable to meet future withdrawal requirements, their fear becomes self-fulfilling. Depositors may also worry that the national central bank will help temporarily illiquid banks but not insolvent banks with liabilities exceeding the true value of assets. But because depositors do not know the true health of individual banks, the safest thing to do is to withdraw their funds from all domestic banks and deposit them in safer investments abroad. If a bank run ensues, fleeing depositors will push the local currency down as they sell their local currency. If the government tries to buy back the local currency, it will deplete its foreign reserves and increase the risk of a complete exchange-rate collapse. (However, a domestic banking crisis need not cause a currency run if depositors can shift their funds from home to local banks owned abroad and backed by strong overseas banks and central banks, as in Argentina today.)

The obvious advice is that governments should prevent commercial banks from favoring particular industries and tighten banking supervision so that widespread insolvencies do not occur. Unfortunately, the first suggestion runs contrary to many national development strategies, while the latter is hard to implement, as banking failures in the United States, Japan, and many European countries have shown. But sufficient liquidity, either through foreign currency reserves or access to foreign credit, would let a government restructure and recapitalize its banks without experiencing a currency crisis. The more international liquidity a government has, the less depositors will feel that they must rush to convert their currency before the reserves are depleted. And preventing a currency decline can be the best way to protect bank solvency.

RAGIN' CONTAGION

FINALLY, a currency can crash even without current account imbalances, balance sheet mismatches, or banking system failures. Currencies that are not overvalued may still succumb to contagion based on geography, trade patterns, or investor portfolio strategies. Such declines can trigger inflation, an economic downturn caused by an increased debt burden, or both. But again, a country with sufficient foreign exchange

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can intervene to defend its currency from such "irrational" pressures. The very presence of liquidity can reinforce investor confidence and reduce the likelihood of irrational speculation. The traditional alternative—defending the currency by raising interest rates—only depresses the domestic economy and can even exacerbate capital outflows by sparking a local stock-market crash, as it did in Thailand and South Korea in 1997.

THREE STEPS TOWARD SELF-HELP

AN EMERGING market economy can inoculate itself against future attacks by taking the right measures to boost liquidity: reducing short-term foreign debt, accumulating liquid reserves, and organizing a collateralized credit facility. Each of these measures carries a stiff price, which is why many countries are tempted instead to do nothing and to run the risk of a currency crisis. But the Asian experience shows that the tremendous costs of a currency collapse often exceed the price of maintaining enough liquidity to ward off future crises. These three steps are mutually reinforcing, and a cost-effective strategy probably involves doing some of all three.

Avoid High Short-Term Foreign Debt. Banks, companies, and governments in emerging markets often borrow with short-term maturities in dollars or yen because such loans have lower interest rates than longer-term bonds or domestic currency loans. But such borrowing is particularly risky. Foreign lenders may refuse to renew lending if conditions in the borrowing country appear to change or if lenders become more risk averse in general, as they did after the August 1998 Russian default. Just the accumulation of too much foreign debt relative to reserves may trigger a currency crisis, as South Korea learned in 1997. And if a currency does fall, the rise in dollar-denominated debt can ignite corporate bankruptcies and recession.

Chile successfully avoided this pitfall. It discouraged short-term capital inflows by requiring Chilean borrowers to deposit 20 percent of foreign loans with the government for six months without interest—a substantial penalty for short-term borrowing but not for long-term capital inflows. The policy did not stem the total capital inflow to Chile but caused investors to shift funds to less volatile assets. Although this

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strategy raised the cost of capital for Chile's private borrowers by forcing them to rely on longer-term loans (with higher interest rates), it successfully reduced the risk of a currency crisis.

High short-term foreign debt is not the only source of risk. In countries without capital controls, like most of Southeast Asia and Latin America, local residents can convert any amount of their cash or bank deposits from the local currency to foreign currencies. A bank can increase the amount of convertible deposits simply by lending more. Hence, limiting short-term debt to less than the sum of foreign exchange reserves is not enough to ensure sufficient international liquidity. Although the unwillingness of foreign creditors to roll over existing loans may be the most probable danger, the magnitude of widespread capital flight by domestic residents and speculation by foreigners may pose the greater risk. In short, reducing short-term foreign debt is a good idea but not enough to prevent a run on the currency.

Accumulate More Foreign Exchange Reserves. The most direct way for a country to achieve liquidity is to accumulate substantial amounts of liquid foreign reserves. China's $140 billion plus in reserves sends a strong signal to international investors and domestic residents that China will not be forced to devalue the yuan. Many countries with floating exchange rates hold substantial reserves to reduce the risk of currency crises—even though they theoretically have no need for reserves since the market alone determines their currency's course.

Reserves are costly in two ways. First, accumulating reserves by having exports exceed imports requires a cut in domestic consumption and investment. Second, when the government buys foreign currency from its exporters and issues domestic bonds in exchange, it generally pays a much higher rate of interest on its domestic bonds than it receives on its reserves, which it usually invests in low-yielding U.S. Treasury bills. Accumulating reserves by running a trade surplus also takes time. And holding export earnings as reserves rather than investing them in domestic infrastructure or making the funds available for private investment sacrifices a substantial real rate of return for the nation.

However, a country can accumulate reserves more quickly, without reducing real domestic investment, by borrowing abroad with

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longer-term maturities and investing those funds in liquid international securities. China, with $160 billion in foreign debt, has implicitly adopted this approach. But this strategy can also be quite expensive. Mexico now pays an 11 percent interest rate on a 20-year bond, six percentage points more than it would earn on an investment in U.S. Treasury bills. That spread of six percentage points means that an addition of $30 billion, which would double its current reserves, would cost Mexico $1.8 billion a year—nearly half of one percent of its GDP. Although this price may seem high, it must be compared to the potential losses from a currency crisis. The price tag may also overstate the true national cost of building up reserves, because a rise in reserves often lowers the cost of private debt and equity capital. China, awash in reserves, pays interest of only about seven percent on its long-term dollar bonds.

China's $140 billion in reserves sends a strong signal to investors.

A country could substantially lower the net cost of holding reserves by investing them in liquid assets with higher yields than short-term U.S. Treasury bills. U.S. corporate stocks had a real yield of seven percent from 1945 to 1995, more than six percentage points higher than the real yield on U.S. Treasury bills over the same period. Although corporate stocks are riskier than Treasury bills, a country could lower its overall risk by increasing its foreign exchange reserves and investing some of them in stocks rather than solely in Treasury bills.

More generally, a government should not judge the adequacy of its reserves in relation to the value of imports. A common reserve goal of, say, six months of imports ignores the fact that currency crises are about capital flows, not trade financing. What matters is the value of reserves relative to the potential selling of assets by speculators even if the country's fundamental economic conditions do not warrant a currency deterioration.

Create a Collateralized Loan Facility. A country's ability to borrow large sums of foreign currency on short notice is virtually as useful as holding an equal amount of reserves. The challenge is finding sufficient credit from the private sector. The G-7 was right to emphasize the desirability of a precrisis loan fund but wrong to expect that the IMF and the G-7 governments could provide the loans. The IMF has

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less than $200 billion of total lending capacity, not large in relation to the 1998 package of $42 billion for Brazil alone. Japan's plan to help Asian governments by guaranteeing their debts involved only $15 billion of Japanese funds. In contrast, American banks alone have more than $5 trillion in outstanding loans and investments. The G-7 called for private creditors to continue lending to emerging markets during economic stress. But given the losses of many banks on the heels of the crisis, it is not hard to imagine why banks and bond holders would try to reduce their exposure under those circumstances. Some countries with substantial state assets slated for privatization could use the proceeds of future sales to back new bond issues. (See my "How to Save the Ruble" in the *Financial Times*, July 8, 1998.) But what can countries without such assets do?

The only reliable way to maintain private lending and increase credit is to create a collateralized credit facility: an agreement that provides collateral to protect the providers of credit. Although there is no substitute for sound economic behavior, creditors value good collateral more than the appearance of virtue. And with solid collateral, there is no need to argue about whether a country is unable to meet its debt service requirements or just unwilling to do so.

Done properly, such a facility could substitute for an international lender of last resort, lending freely at penalty interest rates against good collateral. The problem is to identify assets that banks and bond holders could rely on in the case of default. It cannot be real estate or other domestic assets that would be difficult for creditors to seize and convert into dollars or other hard currencies. Instead, the most suitable collateral would be the export earnings in hard currency of the domestic firms. This is now common in many private credit arrangements between firms in emerging economies and their industrial-country creditors. A collateralized facility was used by the United States and Mexico in 1983 and 1995, with a dollar loan secured by the receipts from the Mexican government's future oil sales. (Argentina now holds an essentially uncollateralized $7 billion line of credit from the foreign banks that operate in that country, but has difficulty in maintaining that arrangement.)

A collateralized credit facility would be a voluntary arrangement between an emerging market government and a group of foreign

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banks. Participation by the IMF or the World Bank on the same terms would create even greater confidence since countries are very reluctant to default on payments to those institutions. The participants would determine the maximum amount of foreign exchange credit available and agree in advance on the market-based interest rate or spread that the borrowing country would pay. The government would have the option to borrow these funds at any time during a two-year period, subject to withdrawal on two years' notice by any of the parties. The government would also pay each participant for the option of obtaining credit under less favorable circumstances. The potential lenders could participate either on equal terms or with a more elaborate structure that would allow some creditors to take more risk—for example, being the last to be repaid—in exchange for higher fees and interest. If it becomes necessary to use the loan facility, the borrowing government would require that all of its export earnings be repatriated immediately and paid to a trustee institution like the Bank of England or the Federal Reserve. The trustee would transfer a fraction of these receipts to the creditors to service the newly incurred debt. The institution would then transfer the remainder of the export receipts to the emerging market government, which would in turn pay the exporters the value of their exports with a combination of the local currency and the currency of the export earnings. To make this work on short notice, the borrowing country must pass laws in advance to allow the diversion of export earnings if it uses the credit facility. It would also need currency controls when the loan takes effect, permitting only importers and others with specific needs to convert domestic funds into foreign exchange. The plan would work even better if the G-7 countries required importers in their own countries to divert payments for imports to the trustee.

A collateralized credit facility is much less expensive than accumulating and holding foreign exchange reserves—as long as it is not actually used. If it is used, the capital controls and the payment diversions would involve large administrative costs and open up the possibility of waste and corruption. A firm time limit on such borrowing therefore is important. In the end, a country must decide whether deterring irrational speculation and potential contagion—and giving

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the country time to handle crises that do occur—is worth the cost of the potential credit.

ANOTHER WAY OUT?

WHAT ABOUT alternatives to self-protection through increased liquidity? I have already commented on the inadequacy of past IMF programs and the newly proposed "enhanced lending facility." Three other alternatives also deserve comment: economic isolation, currency boards, and dollar or yen zones.

Economic Isolation. Malaysia's prime minister, Mahathir bin Mohamad, has imposed complete controls indefinitely on all capital inflows and outflows. This not only denies Malaysia the ability to supplement domestic savings with foreign capital but discourages foreign firms from making direct investments in Malaysia for fear that controls will later prevent repatriation of profits. Efforts to evade controls will only lead to waste and corruption. The argument that isolation allows a country to stimulate its economy through lower interest rates fails to convince. Malaysia could achieve the same stimulus with targeted tax incentives that offset the effect of high interest rates.

A Currency Board. Argentina and Hong Kong operate a modified currency board system in which they hold one dollar for every unit of local currency distributed as cash or as reserves in the commercial banks. Everyone has the right to exchange that currency for dollars. A currency board system, if strictly enforced, would prevent a successful run on the currency because a drop in foreign exchange reserves would force the central bank to reduce the money supply and raise interest rates. The government never has to devalue because interest rates keep rising as long as the country loses reserves—until interest rates are high enough to get investors to stop selling the currency. In principle, this self-regulating mechanism discourages speculators, so the interest rates need never rise to high levels.

The success of a currency board as a deterrent to speculators depends on market confidence that the government will let interest rates rise as long as foreign exchange reserves dwindle, no matter how much damage those high rates do to the economy. If an ensuing

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collapse in domestic demand and a sharp rise in unemployment induces the government to bend the rules and permit the central bank to issue bank reserves without full foreign currency backing, the automatic confidence factor disappears. The currency board then becomes an empty promise of the government not to devalue or to pursue an inflationary monetary policy. In short, whatever its virtue as an anti-inflation signal, a currency board still cannot prevent currency crises. Indeed, if the Hong Kong government eventually succumbs to the deepening recession by devaluing the Hong Kong dollar and reducing interest rates, Argentina's currency board would probably lose credibility as well. The theory of the currency board would then return to the textbooks of monetary history.

Dollar or Yen Zone. Another alternative for avoiding currency crises is to abandon the local currency completely and to replace it with the dollar or the yen. Something similar has already happened in Europe, where the euro has replaced the national currencies. Could Mexico adopt the dollar as its national currency or Thailand adopt the yen?

There is a fundamental difference between these emerging market countries and Europe. The eurozone countries still have access to a lender of last resort. If commercial banks in Italy or Portugal are in trouble, their central banks will provide as many euros as the depositors want and a widespread bank run will be averted. Likewise, while Mexican commercial banks hold bad loans amounting to 20 percent of GDP, the Mexican banking system remains intact because the public knows that the Bank of Mexico can generate enough pesos to replace the deposits of any bank that fails. But if Mexico relabeled those peso deposits as dollar deposits, the Mexican central bank could not provide all the dollars that depositors demanded. The result could be widespread bank runs and ultimately a currency crisis if Mexicans took their funds out of the country to safer, foreign banks. The only way for Mexico to adopt the dollar as its currency would be to have American banks take over Mexican banking services and implicitly cede control of Mexican monetary policy to the U.S. Federal Reserve. Even if the Mexicans were willing to go along, a currency union of two very different economies would cause serious economic problems for Mexico.

In the end, emerging market countries must realize that they can control their financial health to a considerable extent. They must first

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kick the bad economic habits of the past—bloated current account deficits, excessive short-term foreign currency borrowing, and shaky banking systems—to reduce the risk of devastating currency crises, painful exchange-rate fluctuation, and externally driven swings in domestic interest rates. There is no substitute for sound economic policies: moderate trade deficits, low short-term foreign debts, and strong banking systems. At the same time, even responsible policies can be undone by the powerful forces of market contagion, shifting risk aversion, and irrational speculation. Because the IMF and other international organizations cannot act as lenders of last resort, emerging market countries must protect themselves through increased liquidity. The measures discussed above—reducing short-term capital inflows, increasing foreign exchange reserves, and establishing collateralized credit facilities—can all fill this essential role. Each of these options is expensive but far less painful than the damage of currency crises. Through financial self-help, emerging markets can take their economic fate into their own hands.

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Dealing with the Bomb in South Asia

Strobe Talbott

INDIA'S AND PAKISTAN'S DANGEROUS BLASTS

LAST MAY Indian Prime Minister Atal Bihari Vajpayee authorized a series of nuclear tests beneath the desert sands of Rajasthan. While the aftershocks were still registering on seismographs around the world, he proclaimed India a nuclear-weapons state. Fifteen days later, Pakistani Prime Minister Nawaz Sharif, claiming he had no choice but to match an adversarial neighbor, ordered Pakistan's own series of tests in the Chagai Hills of Baluchistan and declared that his country, too, had nuclear arms.

The tests spurred immediate global condemnation. In all, 152 nations—large and small, developed and developing—voiced their opposition. So did numerous international organizations, including the G-8 major industrialized democracies, the Regional Forum of the Association of Southeast Asian Nations, the Organization of American States, the Nordic Council of Ministers, and the Organization of the Islamic Conference. They all saw the tests as a double setback: for peace in South Asia and for international efforts to stop the spread of nuclear weapons and control dangerous technology.

The consequences for American policy toward South Asia were also severe. The explosions derailed an initiative by the United States to put its relations with both India and Pakistan on sounder

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footing. The relationship between the United States and India had been in a rut throughout much of the Cold War, when the United States was the leader of the West and India a leader of the nonaligned movement, which it helped found in 1955. With those divisive categories now largely in the past, President Clinton saw India and the United States—fellow democracies with highly developed entrepreneurial economies—as natural partners.

With Pakistan, too, the Clinton administration had sought a fresh start. For decades, Pakistan had been a U.S. ally on the frontline of the struggle against the Soviet Union. That preoccupation had inhibited the United States and Pakistan from making common cause in other areas, especially fostering moderation and democracy in the Islamic world. The more complex and subtle geopolitics that came with the end of the Cold War provided a more variegated basis for bilateral relations.

With these opportunities and the approach of the 50th anniversary of Indian and Pakistani independence in mind, President Clinton instructed the State Department in 1997 to explore ways to broaden and deepen ties with both countries. The president has remained committed to that goal. But in the wake of the tests last May, the United States has had to concentrate its diplomacy on preserving the viability of the global nonproliferation regime. Since last June, Washington has conducted separate but parallel discussions with New Delhi and Islamabad aimed at heading off an escalation of nuclear and missile competition in the region.

HOLDING THE LINE

THE TESTS last May brought to a head an old and persistent source of tension between the United States and both India and Pakistan. The dispute over nuclear weaponry has been part of the subtext of U.S.-Indian relations from the earliest days of India's independence from Britain. Even then, at the dawn of the nuclear age, mainstream Indian leaders feared that the bomb would loom large in the coming phase of international politics and that India might not be able to stand passively by. In 1948, Prime Minister Jawaharlal Nehru, a champion of disarmament, told Parliament that, "of course, if we are

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compelled as a nation to use [atomic energy] for other purposes [than peaceful ones], possibly no pious sentiment will stop the nation from using it that way."

In the 1950s and early 1960s, under programs such as "Atoms for Peace," it was American policy to help India and other countries acquire peaceful nuclear energy while discouraging them from developing nuclear weapons. India, however, never forswore putting nuclear technology to military use.

India's brief war with China in 1962 was—and remains—a traumatic experience. China's test of a nuclear weapon two years later, its burgeoning strategic relationship with Pakistan, and the 1965 Indo-Pakistani war over Kashmir weighed increasingly heavily on Indian minds. Many experts believe that it was during this period that Indian Prime Minister Lal Bahadur Shastri authorized what became Delhi's nuclear-weapons program. In a letter to President Lyndon B. Johnson in May 1966, Shastri's successor, Indira Gandhi, hinted strongly that the Chinese program was driving a reluctant India toward a test of its own. Officials in Washington feared that India could go nuclear. In the words of a National Security Council memorandum prepared for President Johnson in June 1966, "Such a decision could start a nuclear-proliferation chain reaction. This would be contrary to basic U.S. national interests."

During this period, the Nuclear Nonproliferation Treaty (NPT) became a landmark on the international landscape. This document might better be called the "No *Further* Proliferation Treaty," since when it was signed in 1968, proliferation had already occurred. Five states had tested nuclear weapons—the United States, the Soviet Union, the United Kingdom, France, and China. The NPT was explicitly not intended to legitimize those arsenals indefinitely. Rather, it represented a bargain: states that had not tested at the time of signature would promise never to develop or acquire nuclear weapons; in exchange, the parties agreed to share the benefits of peaceful nuclear technology with one another and to work toward the eventual elimination of all nuclear weapons. The NPT was a brake on what would otherwise have been a juggernaut of nuclear proliferation. In 1963, President John F. Kennedy predicted that there would be 25 nuclear-weapons states within a decade.

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Instead, 36 years later, 182 non-nuclear-weapons states plus Taiwan have joined the NPT and renounced nuclear weapons, and the 5 nuclear-weapons states party to the treaty have accepted the NPT's disarmament obligations. Only 4 states—India, Pakistan, Israel, and Cuba—remain outside the global regime, and of these, only India and Pakistan have tested nuclear weapons and declared their nuclear status.

India's and Pakistan's tests could undermine future disarmament.

Under the terms of the NPT, 25 years after its entry into force its members would decide whether to extend the treaty indefinitely or for a fixed period of time. In 1995, 175 states agreed to indefinite extension. From the sidelines, India complained that the treaty was discriminatory because it protected the right of five countries—notably including China—to a monopoly on nuclear weapons while consigning the rest of the world to permanent inferiority. In their attacks on the NPT, Indian commentators and officials have argued that many of the non-nuclear-weapons states were duped or pressured into joining a treaty regime that infringed on their sovereignty and security. India presented itself as the champion of the rights of others who were too weak, shortsighted, or craven to stand up for themselves.

In fact, the decision to extend indefinitely the NPT reflected the participation and support of nations whose motives clearly, and properly, included self-interest. The non-nuclear-weapons states that signed the NPT did so because they believed it would spare them the expense of having to compete with one another in nuclear weaponry and because it would prevent their neighbors from being able to threaten them with nuclear weapons. The overwhelming majority of states continues to believe that the spread of such weapons would add perilously to regional and global tensions. Most of them tended to see India's and Pakistan's tests in that light.

The NPT has become part of the bedrock of the international system. For many nations, adherence to the NPT is a matter of international good citizenship. In the early 1990s, the newly independent states of Belarus, Kazakhstan, and Ukraine returned Soviet nuclear weapons to Russia for dismantlement. As part of its transition to

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democracy, South Africa became the first nation to destroy a clandestine nuclear arsenal and then join the NPT as a non-nuclear-weapons state. Argentina and Brazil shut down their nuclear programs, joining the NPT in 1995 and 1998, respectively.

Since the South Asian tests, several non-nuclear-weapons states have noted pointedly that in joining the NPT, they were accepting the existence of five states that had declared nuclear arsenals, not seven. If efforts to hold the line against further erosion fail, last year's tests could spark a chain of withdrawals from the NPT. The unraveling of the treaty would, in turn, almost certainly jeopardize future progress in arms control and in the movement toward disarmament, since the NPT has made it possible for the nuclear "haves" to pursue arms reductions.

The United States warned India that nuclear tests would harm India's security.

Since the early days of nuclear weapons, the United States and others have been looking for ways to control and even abolish nuclear weapons. In 1946, the Acheson-Lilienthal report suggested creating an international authority for nuclear weapons and materials, and the U.S. representative to the U.N. Atomic Energy Commission, Bernard Baruch, offered to destroy all U.S. nuclear weapons if other countries would accept a ban on acquiring their own. Once the Soviet Union tested its first bomb in August 1949, disarmament gave way to arms control. During the first decade of the Cold War, the best the superpowers could do was to work out rules of the road for the arms race. But following the Berlin and Cuban crises, a gradual easing of tensions permitted the United States and the Soviet Union to take difficult, practical steps toward the limitation and then the reduction of their nuclear arsenals.

The United States and Russia have already dismantled or removed from service 18,000 warheads. The Clinton administration is prepared in the next round of strategic arms reduction talks (START III) to cut the U.S. and Russian strategic arsenals by 80 percent from their Cold War levels. The United States has also diminished the role of nuclear weapons in its defense posture and cut its stockpiles of shorter-range tactical nuclear weapons by 90 percent. The United

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Kingdom and France have also taken steps toward disarmament, including the dismantlement of missiles and the cessation of production of fissile material, the stuff of which nuclear warheads are made.

The Comprehensive Test Ban Treaty (CTBT) opened for signature in 1996 was also an essential step toward disarmament—one that the NPT parties had unanimously called for when they indefinitely extended the NPT the year before. By banning all nuclear explosions, the CTBT makes it impossible for states to develop new types of nuclear weapons with any confidence, thereby inhibiting a renewed nuclear arms race.

NUCLEAR SELF-ESTEEM

A QUARTER-CENTURY ago, in 1974, Indira Gandhi authorized the first—and until May 1998, the last—Indian nuclear test. Delhi explained that device to the world as being for peaceful purposes. That was a distinction without a military difference; terminology aside, India now had the bomb.

Largely in reaction to developments in India, Pakistan had already concluded that it, too, must have nuclear weapons. It sought and received help from China, which further stoked India's mistrust of both nations. By the early 1990s, India had extensive nuclear facilities that could produce and reprocess plutonium for nuclear weapons. It also was developing ballistic missiles. Pakistan kept pace but with an important difference. While India's nuclear-weapons and ballistic-missile programs were well established and largely indigenous, Pakistan was trying to come from behind and therefore relied on equipment and technologies acquired abroad. During this period, the United States and others were trying to halt proliferation by penalizing countries trafficking in dangerous material. Therefore Pakistan was more vulnerable than India to U.S. sanctions.

But from the late 1980s through the mid-1990s, India, not Pakistan, seemed poised to be the first since 1974 to detonate a nuclear explosive device on the subcontinent. On several occasions the United States and other governments appealed to Delhi, arguing that testing would harm, not strengthen, India's security. After all, Pakistan would then be virtually certain to test a weapon of its own, which

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could trigger an all-out arms race on the subcontinent. Washington also argued that the CTBT proved that there was an international consensus against testing.

Without tipping its hand on whether it would actually test, India claimed, wrongly, that the CTBT was, like the NPT, discriminatory and warned that India would keep all its options open. After completing its preparations in great secrecy, India detonated a series of what it described as "weaponized" devices in Rajasthan last May. The United States was among the 14 countries that imposed sanctions—tightening export controls, suspending or sharply curtailing bilateral defense relations, shelving other cooperative ventures, and canceling foreign aid—first against India and then, when Pakistan followed suit, against that country as well. This was the low point in two relationships that the United States had hoped to improve.

Some Indians and Pakistanis seem to see Cold War brinkmanship as a model to emulate.

India stepped up its castigation of the NPT and demanded that it should be treated as an "equal" of the five nuclear-weapons states. Jaswant Singh, my principal interlocutor in the U.S.-Indian dialogue and now India's minister of external affairs, wrote in these pages in September 1998 that India, nervous about a rising China, was the victim of "nuclear apartheid." Several prominent Indians acknowledged that the motive for the tests had been mainly—and perhaps essentially—to achieve a "great-power status" that they believed could come only with membership in the nuclear club. As Chandan Mitra, an Indian commentator, put it, "The bomb is a currency of self-esteem." Or as K. Subrahmanyam has noted, "Nuclear weapons are not military weapons. Their logic is that of international politics and it is a logic of global nuclear order. . . . India wants to be a player in, and not an object of, this global nuclear order."

Because the five NPT-recognized nuclear-weapons states are also the permanent members of the U.N. Security Council, some Indians have suggested that their country's new, self-declared status as a nuclear power enhances its claim to permanent membership on the Security Council if and when that body expands. The United States disagrees. The composition of the Security Council is a function not of nuclear

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status but of the geopolitical realities following World War II. Only the United States had nuclear weapons in 1945. In the Clinton administration's view, it would be far more in keeping with the global trend away from reliance on nuclear weapons for any new permanent members of the Security Council to be countries with a demonstrated commitment to nonproliferation and disarmament. Germany and Japan, whose candidacies the White House supports, achieved both security and stature without nuclear weapons. Some Indian commentators retort that those two nations, by virtue of being U.S. allies, live under an American nuclear umbrella while India enjoys no such international security guarantees. But testing is no answer to India's problems. International assurances and enhancements of Indian security will only be harder to get if India is engaging in an arms race and if testing prompts India's neighbors to respond in ways that diminish India's security.

Even before May 11, 1998, no one doubted that India had a nuclear-weapons capacity, just as Pakistan's nuclear-weapons capability was universally recognized before May 28. By testing, India and Pakistan proved little except that they are at odds with much of the rest of the world on the need to reduce the political salience of nuclear weapons. Since May, both India and Pakistan have advanced the notion that their tests will usher in an extended period of nuclear stability in South Asia comparable to the one that preserved the peace between the United States and the Soviet Union for half a century. Some Indians and Pakistanis seem to see Cold War brinkmanship between the superpowers as something to be emulated. They should look at the record again—not from the vantage point of having seen the Cold War end peacefully, but rather from the sobering perspective of what it took to manage the rivalry.

Security has an economic dimension as well as a military one. Before India and Pakistan decide to replicate the U.S.-Soviet nuclear standoff, they should consider the price tag. A recent Brookings Institution study estimates that maintaining the American nuclear capability cost the United States just under $5.5 trillion. On the other side of the Iron Curtain, the expense of prosecuting the nuclear arms race helped make the Soviet system and state disintegrate. The massive spending required to develop nuclear weapons is only a fraction of what is required for safely managing even a modest nuclear arms capability. The tense

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military situation generated by a nuclearized subcontinent would further drive up overall military budgets—a trend already in evidence.

Those looking for lessons from the Cold War should also consider how close the United States and the Soviet Union came to the brink. India and Pakistan have even less margin for error than the United States and the U.S.S.R. did in Cuba and Berlin, for geographic and other reasons. During the half-century of their global rivalry, the United States and the Soviet Union never drew each other's blood on the battlefield—at least not in a direct conflict. By contrast, India and Pakistan have, over approximately the same span of time, fought three wars, and there continue to be frequent and sometimes fatal exchanges of artillery fire across the "line of control" in Kashmir. India's and Pakistan's capitals are within less than an hour's reach of the other's supersonic fighter-bombers—and are only minutes' flight time away for the mobile ballistic missiles that both are developing.

In that context, they—and we—must heed the current debate, especially within India, over doctrine and deployments. A number of theoreticians of Indian nuclear policy have adopted jargon and concepts from the more apocalyptic school of American strategic thinking in the 1950s and 1960s. They write with confidence and even enthusiasm about overkill, war-fighting, and city-busting, and they advocate deploying a thousand or more Indian warheads aimed at Karachi as well as at China's larger cities. An alternative view asserts that nuclear war is neither fightable nor winnable, that the very existence of the weapons will deter their use, and that India should therefore embrace the idea of "existential deterrence."[1] For

[1] Bharat Karnad's writing offers a vivid sample of the more muscular options. For a rebuttal, see C. Raja Mohan's November 26, 1998, op-ed in *The Hindu*, which argues that "India needs nuclear weapons" but also "needs a strategy to limit the international damage from its nuclearization. . . . [I]t does not need a xenophobic 'nuclear Taliban' that will force the country to turn its back on the world." On "existential deterrence," see K. Subrahmanyam's November 17, 1998, op-ed in *The Times of India:* "India has the benefit of the wisdom drawn from the highly risky and totally non-viable policies of nuclear deployment followed by the US and the USSR. It has, therefore, no intention of repeating those blunders. That is why India has adopted a no-first-use policy. India does not subscribe to the outmoded war-fighting doctrine and the Indian nuclear weapons are meant solely for deterrence." A number of Indian advocates of this view have made an explicit effort to reconcile their country's capacity for wielding the instruments of mass destruction with its "civilizational" values, including those associated with Mohandas K. Gandhi.

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its part, the Indian government is conducting a strategic defense review. In their public comments, Indian officials have thus far been careful not to prejudge the conclusions of that process. But several recent high-level statements seem to imply that the government is looking for a position at the more moderate end of the spectrum. Most prominently, Vajpayee himself spoke last December of adopting a posture of "minimum credible deterrence."

Pakistani officials have been even more circumspect, preferring to wait and see what India is planning to do before announcing their own policies. But given their country's pronounced disadvantages of size, geography, and economic strength in comparison to India, they should be amenable to the concept of minimum deterrence as well.

AVOIDING THE WORST

HAVING INDIA and Pakistan stabilize their nuclear competition at the lowest possible level is both the starting point and the near-term objective of the U.S. diplomatic effort underway since last June. The United States must remain committed to the long-range goal of universal adherence to the NPT. It cannot concede, even by implication, that India and Pakistan have by their tests established themselves as nuclear-weapons states with all the rights and privileges enjoyed by parties to the NPT, such as full international help in developing nuclear energy for peaceful purposes. To relent would break faith with those states that have forsworn a capability they could have acquired. Moreover, it might inadvertently provide an incentive for other countries to blast their way into the ranks of the nuclear-weapons states. Therefore, until India and Pakistan disavow nuclear weapons and accept safeguards on all their nuclear activities, they will continue to forfeit the full recognition and benefits that accrue to members in good standing of the NPT.

At the same time, if India and Pakistan are willing to move toward the international mainstream in the way they define and defend their interests—even if they remain for the foreseeable future outside the NPT—their relations with the United States and other members of

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the international community could improve substantially. Lifting sanctions would be only one component of a return to the process of transforming the relationships, which was among the first casualties of the May tests.

In conducting parallel diplomatic dialogues with India and Pakistan over the past nine months, the United States has taken into account both governments' conceptions of their own national interests. The Clinton administration does not expect either country to alter or constrain its defense programs simply because we have asked it to. The essence of the case the administration is making to both is that they can meet their security requirements *as we have heard them define them* without further testing nuclear weapons, without producing more fissile material, and without deploying nuclear-capable missiles—and that, conversely, they will undermine their security unless they move quickly and boldly to bring under control the action-reaction cycle between them. Against that backdrop, the United States is encouraging India and Pakistan to take five practical steps that would help avoid a destabilizing nuclear and missile competition, as well as more generally reduce tensions on the subcontinent and bolster global nonproliferation.

India's and Pakistan's missiles and planes, not just their nuclear bombs, threaten peace.

Test ban. India and Pakistan have both declared voluntary moratoriums on further testing. At the United Nations in September, the two prime ministers pointed their governments toward CTBT adherence within a year.

Fissile material. Last year India and Pakistan agreed to join talks at the Conference on Disarmament in Geneva on a fissile material cutoff treaty. This agreement would be an important milestone in promoting international acceptance of a key principle of nuclear arms control. But even if those negotiations move forward quickly, the completion and formal entry into force of a cutoff treaty is still several years away. To prevent accumulation of fissile material during that time, the administration has urged India and Pakistan to join the other nations that have conducted nuclear tests in announcing that they will refrain from producing

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fissile material for nuclear weapons pending conclusion of a treaty. The United Kingdom, France, Russia, and the United States have done so.

Strategic restraint. The third key objective of our discussions with the Indians and the Pakistanis involves restraint in the development and deployment of missiles and aircraft capable of carrying weapons of mass destruction. Testing explosive devices is not the only threat to peace. Unless India and Pakistan exercise great care, the delivery systems themselves could become a source of tension and increase the incentive to attack first in a crisis. They could also increase the risk that weapons would be used as a result of accident or miscalculation.

Export controls. The principles of prudence and restraint also apply to the fourth issue the United States has raised with India and Pakistan: tightened export controls on sensitive materials and technologies that could be used to develop weapons of mass destruction. Both countries have agreed that it makes sense to bring their existing policies and legal regimes in line with international standards. The United States and other countries have begun discussions with both on export controls, and they have agreed to move beyond the realm of principle into that of the practical, including the exchange of information and expertise.

India-Pakistan dialogue. While the first four proposals deal with the overt manifestations of the Indo-Pakistani nuclear competition, the fifth deals with the underlying causes: the long-standing tensions and disputes between the two countries. No amount of diplomatic exertion on our part—on nonproliferation or any other subject—will have much effect unless and until India and Pakistan liberate themselves from their own enmity. And while the United States and others can help through their good offices with both countries, that liberation will occur only through direct, high-level, frequent, and above all, productive dialogue between the two of them.

In this crucial respect, some progress has been made in recent months, especially with the resumption of talks between the two foreign secretaries in Islamabad last fall. They are talking about confidence-building measures, better communications between civilian and military experts, bus lines across the border, trading in energy, and even Kashmir. India and Pakistan are far more likely

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to stabilize their military competition—and meet international nonproliferation benchmarks—if each knows, through bilateral dialogue, what the other is doing and planning.

In that spirit, direct contacts between India and Pakistan will, one hopes, not only complement but eventually supersede the efforts of the United States and other third parties. This would be as it should be: two great countries dealing directly, normally, and peacefully with each other, to their mutual benefit and in pursuit of their many mutual interests. Moreover, a breakthrough between India and Pakistan would let the United States get on with the task that President Clinton set for us before the tests last May: developing the kind of broad-gauge, forward-looking bilateral relationships with these two countries that they, and we, want and deserve.

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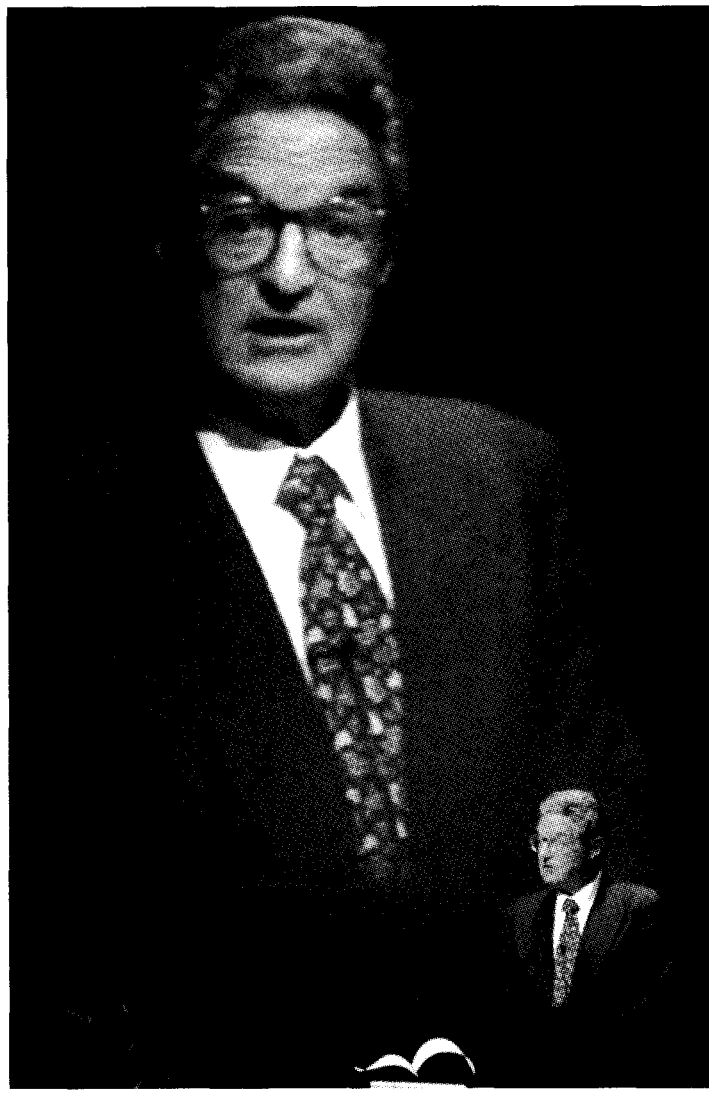
Reviews



AP/WIDE WORLD PHOTOS

George Soros at a meeting of the IMF and the World Bank, Hong Kong, 1997

When Soros the speculator forces a currency into crisis, what does Soros the philanthropist think?

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Review Essay

Soros' Split Personality

Scanty Proposals from the Financial Wizard

Jeffrey A. Frankel

The Crisis of Global Capitalism. BY GEORGE SOROS. New York: PublicAffairs, 1998, 304 pp. $26.00.

George Soros' new book has breathtaking intellectual ambition, with a scattering of good insights about international economics and politics. But Soros' proven success as an international investor is more likely to attract readers than his stab at economic theory, as he himself notes. I confess to being most interested in the interrelationship of Soros' three roles—investor, philanthropist, and public intellectual. When Soros the speculator helps force a currency into crisis, what does Soros the philanthropist think about the social or moral implications for the country under attack? The reader might anticipate one of five possible answers.

Stop me before I speculate again. This is what one most expects. As an intellectual, Soros clearly thinks that market values have overshadowed social values, that financial markets have become excessively volatile, and that some government intervention is appropriate. But his book contains no actual proposals, such as James Tobin's turnover taxes on foreign exchange, for calming excitable financial markets.

As an individual speculator, I am too small to have an effect. There is no logical contradiction between supporting tightened financial market regulations and simultaneously exploiting existing ones. This is particularly true for individual speculators whose small investments cannot affect market prices. Soros used to be in this category, but in a footnote he acknowledges that he no longer is. Now he moves markets.

My investments generally push markets in desirable directions; it is the activities of others that are potentially harmful. Soros

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could plausibly defend this claim. Hedge funds in general and Soros in particular make bets based on economic fundamentals, for example, against overvalued markets; in contrast, most bank foreign exchange traders simply follow the herd. The Quantum Fund's 1992 short sales of sterling arguably helped move Britain's exchange rate toward its proper equilibrium, and its 1997 baht selling should have alerted Thai authorities to a similar problem. This is how investors should operate—making markets more efficient—yet too often fail to. But Soros never explicitly says that financial markets would be fine if other investors behaved as intelligently as he.[1]

I devote a large share of my profits to charity, thus morally compensating for my speculation's negative effects. Soros could sustain this claim as well. His "open society" philanthropy in eastern Europe and elsewhere is extraordinarily generous, innovative, and efficient. But he does not attempt this sort of self-justification, perhaps to his credit.

My speculative self is completely divorced from my philanthropic self. This seems to be Soros' preferred answer. His two distinct personalities need not be consistent: "I try to be a winner as a market participant and to serve the common interest as a citizen and a human being. Sometimes it is difficult to keep the two roles separate." Elsewhere he claims to have synthesized them, which is what one would expect, considering that his analytical self writes about the interconnection of markets and social values: "I have made a conscious effort to integrate the various aspects of my existence, and I am happy to report that I have been successful." But how these personalities view each other remains a puzzle.

RUSSIAN REAL TIME

The reader can find a fascinating illustration of this puzzle in the chapter "A Real-Time Experiment." On August 9, 1998, Soros interrupts his manuscript, turns to the reader, and in effect confides, "I see things are heating up in Russia. Let me show you how it is done." He then chronicles in real time two weeks of the Russian crisis, including his conversations with Anatoli Chubais, Yegor Gaidar, David Lipton, and Robert Rubin.

Frustrated that his plan to save Russia is not eliciting sufficient reaction from top policymakers, Soros publishes in the *Financial Times* a letter that includes the recommendation "the best solution would be to introduce a currency board after a modest devaluation of 15 to 25 percent." Speculators read over their morning coffee that the financial wizard considers the ruble overvalued, and some infer that Soros must have a large short position in rubles. In other words, they may have assumed that Soros the speculator was speaking when it was really Soros the public intellectual. In any event, they flee from the Russian currency. On August 26, with the ruble devalued, Russian debts in default, and Prime Minister Sergei Kiriyenko fired, Soros admits that his real-time experiment is a failure. To his horror, he

[1] This reluctance is unlikely to be due to modesty. My two favorite sentences in the book are "But there is a big difference between Einstein's theory and mine" and "Marx proposed a deterministic theory that is diametrically opposed to my own."

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has precipitated the very crisis he set out to prevent.

Incidentally, the market manipulation some suspected Soros of is perfectly legal in international currency markets, although illegal in domestic securities. As it happens, Soros was long in ruble assets, not short, as he takes pains to stress. His funds reputedly lost $2 billion on Russia in August. Clearly, Soros' split personality is partly explained by his now limited involvement in the Quantum Fund's day-to-day decisions. One only wishes he had recorded in the book the conversation with his fund manager following the Russian default.

THE SOROS CRITIQUE

Economists will be infuriated by Soros' characterization of their financial market models. His dismissal of rational-expectations and efficient-markets theories is disarmingly straightforward: "I have to confess that I am not familiar with the prevailing theories about efficient and rational expectations. I consider them irrelevant and I never bothered to study them." One sympathizes. But since he purports to instruct his readers in what economic theory says, this attitude sits poorly.

The centerpiece of Soros' grand theory is his idea of reflexivity: "On the one hand, the participant seeks to understand the situation in which he participates. . . . On the other hand, he seeks to make an impact. . . . When both functions are at work at the same time I call the situation reflexive." The core application of his theory is to financial markets. Investors form expectations about a stock's or a foreign currency's future value based on the current market price. At the same time, the market price depends on investors' expectations as transmitted through their buy-and-sell orders. Both relationships must be taken into account simultaneously.

It is distressing for an economist to hear it claimed that this idea has been ignored by economists. The simultaneous determination of market prices and investor expectations features in virtually every recent study of financial markets, including orthodox theories based on economic fundamentals or rational expectations, as well as those that challenge the orthodoxy.

But what Soros means by reflexivity is something beyond this rather obvious simultaneity definition. He believes that markets from time to time carry prices far away from economic fundamentals. Any increase in price—even if it originates in a random blip—generates expectations of future price increases. Participants respond by placing buy orders, which drive the price up further—a form of destabilizing speculation. To express this idea, theorists have developed models of bandwagons, rational speculative bubbles, fads, second-generation speculative attacks, multiple equilibriums, and bank runs. In contrast, the most orthodox theorists argue that normal investors respond to rising prices by expecting a future reversal, placing sell orders to take profits, and push the price back down. This is stabilizing speculation.

If one gives Soros the benefit of the doubt, one suspects that by reflexivity he means something more profound than that the typical speculator forms expectations extrapolatively. Contrary to most economists' theories, there is no such thing as the typical speculator. Various kinds of speculators operate with different models and thus produce wide-ranging expectations of future prices. After all, if there were not diverse expectations, there would not

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be such tremendous trading volume ($1.5 trillion per day in the world's foreign exchange markets alone). It is differences in opinion that make a horse race. The interaction of these varied speculators gives the market interesting dynamics.

Stabilizing speculators estimate currency or stock worth from economic fundamentals such as growth, interest, and inflation rates. In normal times, especially in the long run, their views roughly determine the market price. But many other participants eschew economic fundamentals, believing them to be irrelevant in the short term where their interests lie. Instead, many use technical analysis, which looks for trends within the currency or stock markets.

Soros argues that there has been a noticeable increase in the weight given to short-term technical analysis at the expense of fundamentals. Such a shift has important implications. When traditional models indicate that the stock market is overvalued, those investors who respond by selling stocks depress the market and thereby dampen the overvaluation. But if fundamentals are accorded less weight over time, the pressure to sell diminishes. As a result, market prices continue to rise, generating a self-confirming market bubble.

To be sure, the shift away from fundamentals is not wholly irrational on the part of the individual speculator. Investors are reasonably responding to a market rise that has repeatedly proven fundamentals models wrong and technical analysis right. Every month that the fundamentalists' predictions of doom go unrealized, the more their importance diminishes. It is not that investors necessarily decide that the market is correctly valued; it is that they lose money if they do not follow the herd. There is little use "being right" if everyone else persists in being wrong—and makes a profit. By the time the bubble reaches its peak, fundamentals models have been proven wrong so many times that they have lost credibility. The market is operating far from equilibrium, outside the range that their models specified. Of course, this may be precisely the point that the momentum to technical analysis is spent and market sentiment begins to turn.

CLIPPING THE HEDGES

Financial markets do not always work as perfectly as orthodox economic theory assumes—consider such recent disruptions as the 1982 international debt crisis, the 1992–93 crisis in the European exchange-rate mechanism, the 1994–95 Mexican peso crisis, and the 1997–98 Asian financial crisis. First, large inflows can suddenly give way to large outflows, with little news to explain why. Second, contagion sometimes spreads even to countries with relatively strong fundamentals and sound government policies. Third, the recessions that have hit emerging markets in such crises have been so large that it is difficult to argue that the system is working well.

With this in mind, most readers will come to Soros' book expecting a proposal for regulating international financial markets. But he offers little indication of which measures he favors. He argues that markets should not be left to themselves, but devotes only brief passages to specific controls on capital inflows or hedge funds. Soros gives no clue to how controls would be enforced or how they could weed out destabilizing flows while still "weeding in" desirable capital.

It is not as if there were no suggestions already: taxes on all foreign exchange transactions, taxes on all domestic securities

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transactions, Chile's tax penalties on short-term capital inflows, Malaysia's quantitative restrictions on capital outflows, Argentina's high reserve requirements on short-term bank borrowing, or regulation of hedge funds. But the debate has been sterile, consisting largely of arguments for and against the virtues of free and unfettered capital markets. Proponents of putting "sand in the wheels" point to inefficiencies, anomalies, bubbles, speculative attacks, and crashes. Opponents—until recently almost all academic economists—argue that any such measures would inevitably inhibit desirable capital flows. Neither group bothers to distinguish among the various proposals' details, which are quite different.

Soros offers a short but sympathetic discussion of the penalty on short-term capital inflows that Chile imposed in the early 1990s in its financial boom phase. Statistical evidence suggests that the lower the short-term or bank-intermediated foreign currency borrowing, the lower the probability of crisis. Bank flows are particularly susceptible to "moral hazard" problems, more than are foreign direct investment and longer-term securities. A mismatch of short-term bank liabilities with longer-term bank assets, such as real estate, leaves a country vulnerable to crisis. Chile's experience has suggested that the controls have succeeded in encouraging longer-term maturities while having little effect on the total amount of capital inflows. Although some analysts described Chile's 1998 removal of some inflow controls as evidence against their utility, it could be argued that Chile saw controls as a measure relevant only during a phase of excessive inflows. A promising alternative places higher reserve requirements on banks' short-term borrowing in foreign currency. Unfortunately, Soros' total discussion of capital controls is only two pages long.

Soros also offers a one-page discussion of hedge funds and argues for comprehensive regulation. But his proposed regulation is unspecified. Hedge funds, especially Soros', are becoming the popular image of speculation at its worst. Currency collapses from London to Kuala Lumpur are blamed on them. But in fact they are smaller collectively than other speculators (such as international banks) involved in foreign exchange markets or local residents taking their money out of crisis zones. More important, hedge funds tend to bet on economic fundamentals, not on trends, and are a source of stabilizing speculation. Assume that regulators succeeded in clipping the hedge funds in some way (although since some funds are registered offshore it is unclear how). The weight of stabilizing speculation might shrink and the deviation from fundamentals thereby grow.

Soros argues that, in two respects, some hedge funds may merit their reputation for volatility and points a finger at Long-Term Capital Management, contrasting it with Soros Fund Management. First, he argues that LTCM relied too slavishly on efficient-markets theory, especially rational-expectations statistical methods. These methods in effect assume that a recent period's pattern of price movements will hold in the future. But this approach can go badly astray if an unusual event has not occurred during that particular "baseline" historical period. An extreme flight to quality—where U.S. Treasury interest rates fall while yields on riskier bonds rise—is sufficiently rare that many investors were caught by surprise when it occurred in August 1998. Similarly, the rise in risk spreads and liquidity spreads simultane-

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ously around the world was a relatively new event historically; it thus devastated hedge funds who had thought they were well diversified.

Second, Soros notes that some hedge funds became too leveraged, borrowing from banks to raise the stakes massively. Bets that go wrong, even if only because the market has not yet caught up with fundamentals, can threaten the entire financial system. But this calls for regulating the banks—where the public interest is most clearly involved—more than for regulating the hedge funds.

THE DUKES OF MORAL HAZARD

A disappointment is that *The Crisis of Global Capitalism* contains only a single sentence referring to Soros' famous January 1998 *Financial Times* article proposing an International Credit Insurance Corporation (ICIC). He offers no explanation for the proposal here, only a statement that now would be an ideal time to enact it since it would encourage much-needed flows to emerging markets. On the surface, this seems to contradict the rest of the book's belief that capital flows tend to be excessive. The *Financial Times* proposal would create an authority that would guarantee international loans for a modest fee. It could be part of the International Monetary Fund (IMF) or a new agency. The guarantee would provide a borrowing country access to international capital markets at prime rates, up to an amount set by the ICIC. Beyond that, creditors would have to beware.

Soros is not very explicit about timing. Probably it is only during the "bust" part of an economic cycle (e.g., from 1997 to 1999) that the ICIC would increase emerging markets funding. During the "boom" part of a cycle (e.g., from 1991 to 1996), the institution would presumably somehow limit lending. If Soros intends international support to be limited to the ICIC and support for loans to disappear as soon as national aggregate borrowing goes over the approved limit, this might work. But it might not, especially if the ICIC were to guarantee only specific loans, with additional loans left to the mercy of the marketplace. The famous "moral hazard" problem—that you lend carelessly if you know that governments will bail you out, which many believe to be the crux of the current malady—could remain. First, public statements that no loans will be bailed out beyond those insured would be no more credible than current statements that no loans at all will be bailed out. When a crisis hits a meritorious and systemically critical debtor, the international community will still feel pressure to rescue it. Second, countries would have an incentive to have the ICIC guarantee politically favored borrowings while reserving their most creditworthy projects for the market. In that case, the ICIC guarantees would only exacerbate the current moral hazard dilemma.

Admittedly, the moral hazard point has been overdone by those wishing to keep governments out of the rescue business. Airbags tempt people to drive a little faster, but that is no reason to forswear them. At the start of the East Asian crisis, the moral hazard chorus in Washington was deafening. As the crisis spread to Russia and Latin America, the arguments subsided a bit. Perhaps Congress feared being blamed for a global recession. In any case, it eventually restored to the White House the tools that previous administrations had

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possessed: a usable Exchange Stabilization Fund and U.S. contributions to the IMF.

Overall, Soros' preferred combination—slowing down capital flows during booms and simultaneously preserving the international community's capability to cushion crises—makes good sense. Still, one wishes he had offered a clearer and more detailed proposal.

LONELY AT THE TOP

The book's only overarching theme may be that it is tough work being brilliant when everyone else is not. It does little good if an individual speculator correctly diagnoses that a currency is overvalued and takes a short position accordingly if trend-following behavior by other speculators leaves the currency even more overvalued when the time comes to close out his position. Alas, corrections are not likely to come from politicians, intellectuals, or the media, who embark on self-reinforcing wrong turns as often as the financial community does.

Soros recognizes this and laments that enlightened thinking is no more likely to dominate the political process than it does the market process. Policymaking is riddled with unintended consequences, self-interest, voter disaffection, money-dominated politics, and candidates promising what voters want to hear. As a result, politics regularly carries policymaking far from the sensible path, and it takes policy there on bandwagons analogous to those afflicting the financial community. Ultimately, Soros concludes, "the political process is less effective than the market process in correcting its own excesses." Having critiqued the failings of both markets and politics, Soros leaves little reason to believe his implicit claim that the path of reform is straightforward and clear.

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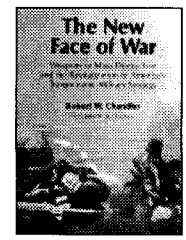
Robert W. Chandler



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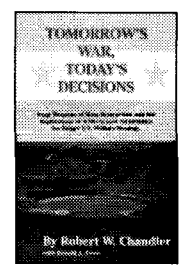

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Review Essay

It Could Happen Here

Facing the New Terrorism

Gideon Rose

America's Achilles' Heel: Nuclear, Biological, and Chemical Terrorism and Covert Attack. BY RICHARD A. FALKENRATH, ROBERT D. NEWMAN, AND BRADLEY A. THAYER. Cambridge: MIT Press, 1998, 350 pp. $22.50.

Terrorism and America: A Commonsense Strategy for a Democratic Society. BY PHILIP B. HEYMANN. Cambridge: MIT Press, 1998, 180 pp. $20.00.

Inside Terrorism. BY BRUCE HOFFMAN. New York: Columbia University Press, 1998, 278 pp. $24.95.

Terrorism with Chemical and Biological Weapons: Calibrating Risks and Responses. EDITED BY BRAD ROBERTS. Alexandria, Va.: Chemical and Biological Arms Control Institute, 1997, 140 pp. $12.95.

The Ultimate Terrorists. BY JESSICA STERN. Cambridge: Harvard University Press, 1999, 176 pp. $22.95.

According to Secretary of State Madeleine K. Albright, last summer's embassy bombings in Kenya and Tanzania were not two more examples of old-fashioned terrorism. "What is new," she declared, "is the emergence of terrorist coalitions that do not answer fully to any government, that operate across national borders and have access to advanced technology." The bomb victims, she claimed, were caught up "in a new kind of confrontation that looms as a new century is about to begin . . . a clash between civilization itself and anarchy—between the rule of law and no rules at all."

The secretary's words would have been accurate had they been uttered a

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century earlier, when a loose-knit transnational movement quite literally devoted to the promotion of anarchy wreaked havoc across the globe. From 1894 to 1901, anarchists managed to assassinate the president of France, the prime minister of Spain, the empress of Austria, the king of Italy, and the president of the United States. All this was accomplished without downloading weapons diagrams from the Internet; they relied instead on manuals such as Johann Most's widely distributed pamphlet, *The Science of Revolutionary Warfare: A Little Handbook of Instruction in the Use and Preparation of Nitroglycerin, Dynamite, Gun-Cotton, Fulminating Mercury, Bombs, Fuses, Poisons, etc. etc.*

Some anarchists showed no scruples in inflicting large numbers of civilian casualties. As the bomber of a crowded Parisian café put it at his trial, "[Anarchists] do not spare bourgeois women and children, because the wives and children of those they love are not spared either." And authorities responded then as they do today; one British police officer wrote in 1898, "Murderous organizations have increased in size and scope; they are more daring, they are served by the more terrible weapons offered by modern science, and the world is nowadays threatened by new forces which . . . may someday wreak universal destruction."

Extralegal political violence by individuals and groups has occurred throughout history, hysterical media coverage of today's terrorism "crises" notwithstanding. Even religious terrorism is nothing new. "Thug," "zealot," and "assassin" are now generic terms of abuse, but each entered the language as the name of a religious terrorist movement centuries ago (emerging from Hinduism, Judaism, and Islam, respectively). And contrary to official statements about the grave danger terrorism poses, most American national security experts and bureaucracies have traditionally paid it scant attention. Terrorism kills fewer Americans than does lightning, they say in private—which happens to be true—and overreaction to it is therefore a sucker's move. Conventional state violence is a far more serious and pressing threat, they insist.

In the last few years, however, this dismissive attitude has come under fire. Some argue that terrorism merits a higher priority now because other threats, like great-power war, have grown so remote. Others say the danger is mounting in absolute as well as relative terms because of changes in terrorist motivations, methods, and organization. And almost everyone was scared by the 1995 nerve gas attack on a Tokyo subway by the Japanese cult Aum Shinrikyo. As terrorism expert Brian Jenkins has remarked, before that incident the debate over terrorists using weapons of mass destruction (WMD) pitted "disbelievers," who thought it would not happen because it had not, against "Murphy's Lawyers," who thought catastrophes were inevitable. The Aum Shinrikyo attack proved the first camp wrong but not the second camp right.

The appearance of several good new books on the subject is therefore a welcome surprise—welcome because they help answer crucial questions and surprising because, with a few exceptions, the literature on terrorism thus far has not been especially distinguished. Bruce Hoffman's *Inside Terrorism* is a concise yet authoritative survey of trends in terrorism past and present. Philip Heymann's

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AP/WIDE WORLD PHOTOS

Will Fort Bragg be next?
Bombed U.S. Army apartment building, Saudi Arabia, 1996

Terrorism and America gives us a sensible guide to how the U.S. government should respond. And three other volumes—*America's Achilles' Heel,* by Richard Falkenrath, Robert Newman, and Bradley Thayer; *The Ultimate Terrorists,* by Jessica Stern; and *Terrorism with Chemical and Biological Weapons,* edited by Brad Roberts—focus specifically on the WMD threat. All five books combine serious scholarship with practical wisdom, and the volumes by Hoffman and Falkenrath *et al.* are particularly comprehensive. What is most interesting, however, is that these independent efforts display a remarkable degree of consensus on the nature of contemporary challenges and what should be done about them.

BE AFRAID. BE MODERATELY AFRAID.

Discussion of the future threat, the authors agree, should begin with recognition that previous predictions of rampant catastrophic terrorism have proved grossly

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exaggerated. Although WMD have been available for decades, terrorists have generally not tried to acquire them, let alone use them against actual targets. Until recently, in fact, terrorists had not even begun to exploit the full destructive potential of conventional weapons. The reason is simple: most terrorism involves carefully calibrated acts of symbolic violence designed to advance a political, social, or bureaucratic agenda, and true mass murder could be counterproductive. It might stigmatize the cause in the eyes of important international or domestic audiences, provoke massive retaliation from the authorities, or spark conflict within the terrorist group itself. Garden-variety terrorists, as Jenkins once famously put it, want a lot of people watching, not a lot of people dead.

To the extent that such rational calculations are indeed the reason we have escaped catastrophic terrorism in the past, they should continue to impose restraints in the future on mainstream terrorist groups, those with a known address and somewhat limited objectives. Hoffman's book traces the history of such organizations from the anarchist and leftist terrorism of the late nineteenth century, through the nationalist and separatist terrorism of the colonial and postcolonial era, to the international and state-sponsored terrorism of the 1960s, 1970s, and 1980s. In recent years, he notes, religious terrorism has increasingly come to the fore. And while the number of terrorist attacks has declined, the number of casualties per attack has increased.

This is where the story starts to get truly worrisome. All five books warn of the increasing danger of nontraditional terrorists, whose behavior is less predictable and who might seek to maximize bloodshed. Three such types quickly come to mind: religious fanatics who consider violence a sacramental act or believe they are the direct instruments of divine retribution; eschatological cults with a penchant for violence; and disturbed or hate-filled activists who want to inflict pain on a grand scale. The good news is that such groups and individuals are few and far between. The bad news is that all three types do exist—as the World Trade Center bombing, the Japanese subway attack, and the Oklahoma City bombing testify—and there is reason to believe their numbers may be growing. (Establishing whether this is indeed the case, and if so why, should be a top priority for future research.)

More bad news is the fact that WMD capability is gradually coming within range of many substate actors through the general diffusion of scientific skills and dual-use technologies. To be sure, terrorists content to cause dozens or hundreds of casualties will probably stick with conventional methods. Yet the more ambitious of them might be tempted by chemical, biological, or nuclear alternatives, whose respective profiles are summarized neatly by Falkenrath *et al.*:

> Chemical weapons suitable for mass casualty attacks can be acquired by virtually any state and by nonstate actors with moderate technical skills. Certain very deadly chemical warfare agents can quite literally be manufactured in a kitchen or basement in quantities sufficient for mass-casualty attacks. . . .
>
> Many states and moderately sophisticated nonstate actors could construct improvised but effective biological weapons. . . . Culturing the required microorganisms, or growing and purifying toxins, is inexpensive and could be accom-

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> plished by individuals with college level training in biology and a basic knowledge of laboratory technique. Acquiring the seed stocks for pathogenic microorganisms is also not particularly difficult. . . .
>
> Nuclear weapons are within the reach of tens of states, with the most significant constraint being the ability to produce plutonium or highly enriched uranium. If this obstacle were avoided through the theft or purchase of fissile material, almost any state with a reasonable technical and industrial infrastructure could fabricate a crude nuclear weapon, . . . [as could] some exceptionally capable nonstate actors.

"Weapons of all three classes," they add, "are deliverable against a wide range of targets, and defense is difficult." There seems to be general agreement that of the three, chemical use is the most likely scenario, nuclear use the least likely, and biological use the scariest because it is both relatively easy and highly deadly.

The intersection of the trend involving motive and the trend involving opportunity is what made the Aum Shinrikyo case so disturbing. After all, as Stern points out, this was a group whose members penned ditties such as the following:

> It came from Nazi Germany, a dangerous chemical weapon,
>
> Sarin, Sarin!
>
> If you inhale the mysterious vapor, you will fall with bloody vomit from your mouth,
>
> Sarin, sarin, sarin, the chemical weapon!
>
> Song of Sarin the Brave. . . .

Given these trends and the fact that terrorists tend to copy each other's methods, one can understand why all these books consider catastrophic terrorism a seismic event whose probability is low but rising. Weapons of mass destruction will not become the car bombs of the next few decades, they argue, but the situation nevertheless calls for precautionary measures to reduce vulnerability, head off attacks, and manage potential consequences.

PRUDENCE, DEAR

Heymann offers a range of intelligent, if unsurprising, suggestions for handling traditional terrorist threats, from avoiding concessions, cooperating with allies, and prosecuting suspects, to relying on crack hostage-rescue teams or military retaliation where appropriate. He makes a persuasive case for avoiding overreaction, arguing both that it would be tragic for democracies to abandon their cherished freedoms and principles in a quest for absolute security and that there is little reason to believe that a heavy-handed approach to counterterrorism would work. After much hemming and hawing, however, even he seems to favor some increase in domestic intelligence gathering, concluding that "the limited threat to uninhibited discussion posed by even reasonable efforts to monitor organizations preaching violence is a price worth paying to prevent political violence."

The other authors agree that in addition to the standard responses, governments can and should do more to prepare for the worst-case WMD scenarios. They make a number of strikingly similar policy recommendations, among which are the following:

Improve intelligence collection and analysis. The groups that cause the greatest concern—religious fanatics, cults, and freelance extremists—are precisely those that usually fly below the radar screen of standard intelligence collection. They tend to be isolated from society and may have no prior criminal history. The U.S. govern-

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ment should therefore change its practices in order to track the activities of such groups wherever they might be and monitor indicators of small-scale WMD programs. It also needs to improve epidemiological surveillance systems at home and abroad. These could alert authorities to accidents from covert biological weapons programs and provide early detection of attacks in progress, which could be crucial for effective response.

Restructure bureaucratic organizations. Current U.S. efforts to prevent and respond to WMD terrorism are spread across a vast number of agencies at different levels of government with little real coordination or direction. Bureaucratic styles and missions clash; information is compartmentalized and left unanalyzed; some tasks are duplicated while others slip through the cracks. Each author has a different pet solution to this problem, but two ideas appear frequently—that the government should set up a central interagency catastrophic terrorism response center and that the Department of Defense should play a greater role in handling WMD attacks on U.S. soil. Many experts feel that weapons of mass destruction are simply not a specialty of the FBI, and where the potential for catastrophic terrorism is concerned, the FBI's reactive law enforcement approach needs to be supplemented by—if not subordinated to—the more aggressive national security approach of the White House and the Pentagon.

Enhance domestic preparedness. Quick and appropriate responses could drastically limit the scale of disaster should a catastrophic terrorist attack ever occur, while delay or chaos would multiply the mayhem. All the authors agree, therefore, that more needs to be done to protect critical infrastructures; coordinate federal, state, and local readiness; train "first responders"; stockpile medicines and vaccines; and develop and disseminate technologies for identifying WMD use. Here the 1996 Defense Against Weapons of Mass Destruction Act—the Nunn-Lugar-Domenici amendment—represents a good start but needs regular funding at much higher levels and should be followed up with further efforts.

Deal with the Russian challenge. The single best way to lower the probability of nuclear terrorism is to control fissile material, and vast stockpiles of such material lie poorly protected in Russia. Helping the Russians control these and other material and human remnants of their massive WMD programs is critical. Here again, the Nunn-Lugar-Domenici plan represents a good start, but it needs vastly greater funding and complementary measures to boot.

Outlaw WMD possession by substate actors. To deter future terrorists and lay the groundwork for prosecuting others, several authors suggest, the U.S. government should support efforts to make WMD possession by individuals or substate groups a universal crime under international law. Furthermore, the government should educate relevant industries about the WMD terrorist threat and push them to adopt strict self-policing and reporting measures, so that covert or unauthorized WMD programs can be identified and stopped early.

To the credit of the Clinton administration and some in Congress, in recent years the government has begun to move in the right direction in many of these areas. The president's recent proposals to increase preparedness against chemical

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and biological terrorism are sound and deserve support, as do his calls for more funding for efforts to manage Russian WMD materiel and scientists. But ships of state take a long time to turn and—rhetoric aside—it will be a while before the new course is reached. What these books show clearly is that the main obstacles ahead are not intellectual or practical but rather political and bureaucratic.

Implementing the agenda outlined above, for example, would take little more than another couple of billion dollars a year, combined with strong leadership and a coherent national strategy, and would help prepare the nation against covert WMD use by rogue states as well as terrorists. Yet worthy measures such as improving epidemiological surveillance or controlling foreign fissile materials attract few powerful backers because they are unusual, unsexy, and provide comparatively few opportunities for pork. Grandiose schemes like ballistic missile defense, in contrast, enjoy funding and attention far out of proportion to their true practical value. (Stern voices a common complaint when she writes that "ballistic missiles are the least likely method of [WMD] delivery, and yet American taxpayers spend roughly ten times as much on defense against [them] as on the entire program to prevent WMD terrorism.")

In the end, the answer should be neither complacency nor hysteria but rather modest, sustained investment in countermeasures and preparedness. Individuals take out insurance policies all the time to hedge against disasters that will probably never occur. This is one case where governments should do the same—and count themselves lucky if the premiums are ultimately wasted.

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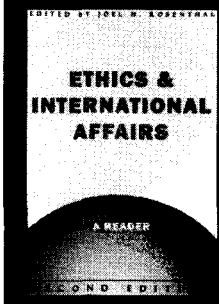

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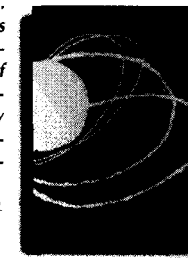

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Recent Books on International Relations

Political and Legal

G. JOHN IKENBERRY

World Disorders: Troubled Peace in the Post–Cold War Era. BY STANLEY HOFFMANN. Lanham: Rowman & Littlefield, 1999, 356 pp. $29.95.

This collection of remarkable essays addresses the great complexities of post–Cold War world politics, from the clash between realist and liberal thinkers to the uncertain leadership role of the United States to nationalism and ethnic conflict. The emerging portrait is of a multipolar and conflictual world order that increasingly eludes the governance of traditional sovereign states. As Hoffmann points out, prevailing principles such as sovereignty, self-determination, and universal human rights are too internally contradictory and insufficient to meet the geopolitical demands of the new era, from growing economic equality to ethnic conflict. Realist theories based on balance-of-power politics are intellectually inadequate in grappling with the new realities, but so too are liberal alternatives that blithely believe that all good things come together. New principles are needed that enshrine self-determination and democracy while allowing the world community to protect universal human

DONALD ZAGORIA and DAVID C. HENDRICKSON are retiring as reviewers of the Asia and Pacific and United States sections, respectively. We would like to thank them both for their many years of outstanding work—in Professor Zagoria's case, 22 years.

We have been fortunate in finding distinguished successors. LUCIAN W. PYE, Ford Professor of Political Science Emeritus at the Massachusetts Institute of Technology, is our new Asia and Pacific book reviewer starting in this issue. Professor Pye is the author of several important books on China, including *The Spirit of Chinese Politics* and *Asian Power and Politics.* We would also like to welcome PHILIP ZELIKOW, White Burkett Miller Professor of History at the University of Virginia and author (with Condoleezza Rice) of *Germany Unified and Europe Transformed,* as the new reviewer of the United States section. His first batch of reviews will appear in the May/June issue.

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rights and global public goods. If liberal internationalism is to guide the world order in the next century, Hoffmann argues, it must reconstruct itself. What precisely he means remains elusive, however. He is at his best in illuminating the shaky foundations of modern world politics and underscoring the limitations of the theoretical and policy constructs in vogue today. He is more tentative, however, in suggesting a path forward. The essays make the case for an ambitious agenda: to focus statecraft on the problems of governance for the future. But the debate over principles and policies is left wide open.

Civil Society: Old Images, New Visions. BY JOHN KEANE. Stanford: Stanford University Press, 1998, 200 pp. $45.00 (paper, $16.95).

Civil society is one of the great slogans of the 1990s, linked to phenomena ranging from the decline of the Western welfare state to the transformation of the former Soviet bloc to resistance against authoritarian regimes in the developing world. This book nicely charts the spread of civil society discourse to show why it has fit so many different contexts. Its popularity, Keane argues, stems from the growing realization that a stable democracy rests not only on properly functioning elections and institutions but on the more elusive "civil" qualities in society.

Most scholars consider the state to be civil society's counterpart, and many activists have used the notion of civil society to resist oppressive regimes. But Keane neatly dissects this approach, noting that no simple relationship between the state and civil society exists. On the subject of national identity, he argues that although the rise of nationalism in early modern Europe helped foster the growth of civil society, today it is more likely to hinder it. The author concludes by asking how citizens can foster civil society through wider political action, but suggests that such a task still has a long road ahead. Although the book does not break new ground, it provides a thoughtful guide to the debate.

Inventing International Society: A History of the English School. BY TIM DUNNE. New York: St. Martin's Press, 1998, 240 pp. $65.00.

This book traces the rise of the English School, a rich tradition of postwar international relations scholarship dominated by such luminaries as E. H. Carr, Martin White, Herbert Butterfield, and Hedley Bull. Dunne suggests that modern American scholars would do well to remember the school's legacy, especially its focus on history's role in shaping the institutions and practices of geopolitics. While Americans started to distinguish international relations from other disciplines such as history, law, comparative government, and philosophy in the 1950s, the English School continued to move comfortably about from field to field. It also resisted the American movement toward testable theories and embraced instead a more historical orientation. And while American scholars sharpened the differences between realism and liberalism, their English contemporaries tried to bridge the two camps. Dunne concludes that the English School has weathered the test of time well, given the rapidly changing fashions of international relations scholarship. Today, as American political scientists begin to explore culture, identity, and the social construction of world politics, this book suggests how much ahead of its time the English School really

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was. To its detriment, however, it misses an opportunity to explore the possible links between British and American camps.

Reimagining Political Community: Studies in Cosmopolitan Democracy. BY DANIELE ARCHIBUGI, DAVID HELD, AND MARTIN KOHLER. Stanford: Stanford University Press, 1998, 354 pp. $55.00 (paper, $19.95).

The authors of this impressive volume argue that globalization is making it harder for democracies to operate effectively as nation-states. Instead, countries must find new ways to expand political participation and accountability across borders; democratic order can no longer function alone in one closed nation-state. The authors call this alternative "cosmopolitan democracy," a vision of political community built around multiple institutions at all levels of international politics. The European Union is a good example: it has added layers of democratic governance to the nation-state, fostered transnational cooperation, and parceled out accountability to clearly defined spheres. The book also discusses the rise of the "global democracy deficit" and notions of citizenship and sovereignty in Europe. If the challenges of the environment, global security, and economic regulation in the 21st century require new international institutions, this book succeeds in showing that considerations of democracy and accountability cannot stop at the water's edge.

The Treaty of Versailles: A Reassessment after 75 Years. EDITED BY MANFRED F. BOEMEKE, GERALD D. FELDMAN, AND ELISABETH GLASER. New York: Cambridge University Press, 1998, 656 pp. $85.00.

No peace settlement has provoked more controversy or regret than the Treaty of Versailles. This massive volume offers new archival materials and divergent national perspectives in rehashing old historical controversies, including the central question of Versailles: Was the failure of the peace and the rise of a revisionist Germany due to a flawed treaty or to wider, uncontrollable forces? The collective scholarship in this volume generally does further damage to the view, popularized by John Maynard Keynes, that the victors provoked German hostility by pursuing an unnecessarily vindictive settlement. Instead, it sees the treaty in more favorable terms as a relatively flexible instrument that ultimately ended the worst of the reparations dispute and the occupation of the Rhineland in 1932. Woodrow Wilson, Lloyd George, and Georges Clemenceau come across as relatively well intentioned, rational leaders who simply could not bridge Allied differences and make the commitments necessary for a lasting peace. In addition, the war's sudden and ambiguous end left the Allied governments unprepared for the negotiations. As the reader follows the account of divergent national war aims, shifting domestic coalitions, staggering dislocation, and complex negotiations, the Treaty of Versailles looks increasingly understandable—if not inevitable. For those seeking to understand the tough realities of building a new world order, this volume will be fascinating to explore.

The Myth of the Powerless State. BY LINDA WEISS. Ithaca: Cornell University Press, 1998, 256 pp. $17.95.

A welcome contribution to the ongoing debate over globalization. Weiss vigorously challenges the view that global

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economic interdependence is eating away the modern state and argues that the opposite is the case: states that manage to deepen economic interdependence can also forge sophisticated and flexible ties with domestic groups. More importantly, responding to globalization will likely push states to become more efficient and capable, enhancing their ability to guide domestic economic policy. Besides, broad generalizations about the rise and fall of the state miss the point. States were never as powerful in the past as conventional wisdom suggests, and the degree of state power has always fluctuated throughout history. Weiss concludes that even if modern globalization is the most significant force in the world, the state is as much midwife as victim. This book provides the best general discussion of state power yet available.

Economic, Social, and Environmental

RICHARD N. COOPER

European Monetary Integration, 1958–2002. BY EMMANUEL APEL. New York: Routledge, 1998, 222 pp. $80.00 (paper, $25.99).

Europe has just inaugurated one of the most momentous monetary experiments of all time, fusing ten national currencies into one under supranational management. The push began in 1993, when the member states established the institutional details after the ratification of the Maastricht Treaty. The actual membership of the European Economic and Monetary Union (EMU), however, was not agreed upon until May 1998. The new European Central Bank was set up shortly thereafter and the currency kicked off smoothly on January 4 this year. This book details the history of European monetary cooperation beginning with the 1957 Treaty of Rome, with flashbacks as far back as Charlemagne's attempt to unify west European coinage 1,200 years ago. In a period of rapid change, books can become quickly dated; Apel carries the story only to mid-1997. Nonetheless, he neatly recounts the rationale behind EMU, the winding road leading to the decision, and the false steps and serious reservations along the way. He also provides a useful reference on the origins of the many EMU provisions that are likely to endure.

The Third Way: The Renewal of Social Democracy. BY ANTHONY GIDDENS. London: Polity Press, 1998, 112 pp. $11.50 (paper).

Giddens, the energetic director of the London School of Economics, has sketched out a "third way" between traditional European socialism and 1980s neo-liberalism. This work puts aside traditional (British) left-wing shibboleths and reexamines contemporary society with a fresh eye. Giddens appraises technological risk as an opportunity rather than a danger and argues that globalization can be a positive force. Changes in the family, he adds, are the result of complex social and technical factors, not moral decay. Great emphasis is placed on education—not only to gain knowledge but to adapt to inevitable change. His admonition that rights come hand in hand with responsibilities is also refreshing. He acknowledges that unemployment compensation may actually raise joblessness.

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By fusing responsibility with entitlement and including the have-nots in society, he believes, government can get around this dilemma. More frustrating is that the book offers only a general philosophical discussion, not a program for action. It also holds more relevance for a British audience than for an American one. As a manifesto for Tony Blair's New Labour, however, it provides a concise outline of the "third way."

Public Health Policies and Social Inequality. BY CHARLES F. ANDRAIN. New York: New York University Press, 1998, 304 pp. $45.00.

The past 40 years have seen massive improvements in health worldwide despite substantial institutional differences in providing health care. Just as one example, U.S. and British infant mortality has fallen by over 70 percent, while Japan's has dropped 86 percent. This informative book examines health care systems in eight industrial countries and evaluates them in terms of equality of treatment, efficiency, and customer satisfaction. The author classifies health care systems into three general categories—entrepreneurial (United States, Canada), organic corporatist (France, Germany, Japan, Netherlands), and social democratic (Britain, Sweden)—and outlines substantial differences in health care financing and provisioning among them. The author adopts a holistic approach to explain such variety, citing public decision-making, divergent interest groups, and cultural differences before concluding that there is no single correct way to provide this fundamental need. Unfortunately, the book would be more useful if it offered further information on such factors as waiting times, access to advanced medical techniques, technical innovation, and opting for outside treatment to assess the quality of different health care systems.

The Natural Wealth of Nations: Harnessing the Market for the Environment. BY DAVID MALIN ROODMAN. New York: W. W. Norton, 1998, 224 pp. $13.00 (paper).

Roodman offers a positive program for mobilizing market forces to help the environment while reducing growth-inhibiting taxes on capital and labor. Critics often place environmental preservation in moral opposition to economic growth and anti-poverty measures, pitting environmentalists against development advocates. Roodman persuasively argues that this choice is a false one and proposes a pragmatic reconciliation. Governments should tax environmental damage, from the overharvesting of fishing areas to harmful emissions, rather than prohibit it outright. In turn, the resulting revenues should be used to fund tax cuts in well-deserving areas, such as investment and labor, that promote growth. In other words, we should tax environmentally harmful activities to reduce taxes on economically desirable ones. In highly readable prose, the author documents the subsidies in the United States and elsewhere that encourage environmental waste as well as the fewer instances of his alternative approach. This book should be required reading for legislators around the world.

Gray Dawn: How the Coming Age Wave Will Transform America—and the World. BY PETER G. PETERSON. New York: Times Books, 1999, 288 pp. $23.00.

Peterson, investment banker and chairman of the Council on Foreign Relations, applies

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demographic projections to forecast a titanic collapse of entitlement policy throughout the industrialized world: rich countries are not reproducing fast enough to offset the wave of aging in the 21st century. Poorer countries, starting with China, are likely to follow, leading to the eventual decline in world population. Past legislation has funded pension and health care rights for the aged largely through current taxes—and as the proportion of the elderly grows, honoring these entitlements in full will become highly problematic. Although the American Social Security system is in good shape compared with Europe, all are in trouble. Peterson skillfully addresses potential solutions and finds none easy, especially as "gray" political influence grows. He offers fascinating and sometimes provocative speculations—intending to raise questions rather than provide answers—on the implications of the demographic crunch for domestic politics, the family, capital markets, medical ethics, trade policy, and international relations. Nevertheless, the book disappoints in one respect: it offers only a cursory discussion of the potential of increased immigration from poorer, younger nations as a way to alleviate the aging problem—at least for the United States and other rich countries open to immigrants.

Military, Scientific, and Technological

ELIOT A. COHEN

Israel and the Bomb. BY AVNER COHEN. New York: Columbia University Press, 1998, 470 pp. $27.50.

This meticulous study of the origins of Israel's nuclear program is less interested in war plans than in diplomacy. Since the late 1960s, Israel has enjoyed the curious status of being a nuclear state without having to admit it—a case of "opaque proliferation," in Cohen's words. The book's strength is its well-researched accounts of the early years of the Israeli nuclear program and U.S.-Israeli diplomacy during that delicate period, when the Israelis sought American support but resisted American pressure to commit to the Nuclear Nonproliferation Treaty. Cohen, however, fails to conceal his open discontent with Israel's ambiguity about the nuclear question. One could argue just as easily that the policy, which has served Israel well in recent decades, stems from highly unusual political and military constraints. Today, the need to deter the use of weapons of mass destruction by states like Iraq or Iran has understandably made Israel reluctant to give up its nuclear program. The author's lack of sympathy with Israeli statesmen may result from his run-ins with Israel's erratic (and now rather mild) military censorship, to which Cohen devotes much attention in his conclusion. Predictably, the censorship question, rather than the argument's substance, has helped boost the book's publicity more than anything else.

Knowing Your Friends: Intelligence Inside Alliances and Coalitions from 1914 to the Cold War. EDITED BY MARTIN S. ALEXANDER. London: Frank Cass, 1998, 304 pp. $47.50.

Not only do gentlemen read each other's mail; it appears that they read their friends' mail with particular interest. This excellent collection of articles from *Intelligence and National Security*, the

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premier journal of intelligence studies, explores how intelligence organizations have kept an eye on their country's best friends. Reflecting the interests of the journal and the availability of documents, more than half of the essays discuss the interwar period and World War II. The book nevertheless carries the story through the Cold War with an essay on the KGB and the East German regime. One recurrent theme is that organizational competition is just as important as national distrust: if a country has two rival intelligence agencies, chances are they will interpret allied behavior differently. A second motif is that reading an ally can be no less difficult than reading an opponent—and making mistakes can be just as consequential.

Private Armies and Military Intervention. BY DAVID SHEARER. New York: Oxford University Press, 1998, 88 pp. $28.50.
A slender monograph on an increasingly salient topic. Entrepreneurs and huge international companies have edged their way into not just equipping armies, but into training, supporting, and working for them as well. This study merely scratches the surface, and the notorious examples (notably Executive Outcomes of South Africa) get most of the attention. The author does not tell us as much as we might like to know about what these organizations actually do or how they are staffed—not surprising, perhaps, given their interest in keeping their operations secret. As an appetizer for a more substantial work, however, this is an intriguing study.

New Diasporas: The Mass Exodus, Dispersal, and Regrouping of Migrant Communities. BY NICHOLAS VAN HEAR. Seattle: University of Washington Press, 1998, 256 pp. $22.00.
Despite the end of the Cold War, the world does not lack sources of insecurity. Mass migration—often a product as well as a cause of unrest—is one example, as recent events in Africa show. And instability lies not just with the movement of immigrants but with the politics of exile communities as well. To his credit, Van Hear defines diasporas with fair precision: the dispersion of a people from a homeland to two or more territories, with an enduring presence abroad and exchanges among the scattered communities. However, the writing is stilted and the subject does not always lend itself to easy comparisons. Still, the analysis remains useful by including some basic statistics in its systematic presentation of modern mass migration.

The Grand Strategy of Philip II. BY GEOFFREY PARKER. New Haven: Yale University Press, 1998, 320 pp. $35.00.
Historians, and historians of the early modern period in particular, often sniff at more ambitious scholars who generalize about strategy. Not so Parker, who has capped a career of writing about Spain and its enemies with a superb study that is part biography, part military history, and part strategic treatise. The author expertly guides his reader through the strategic complexities that weighed upon Philip II, the conscientious, cold, and pious ruler of the greatest empire of his time. No less remarkable than Parker's mastery of voluminous Spanish archives is his use of Philip's rule to illuminate the broader problems of grand strategy, including such supposedly modern phenomena as information overload. This lucid book deserves a much larger

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audience than students of the Dutch Revolt and the Armada.

Knowing Machines: Essays on Technical Change. BY DONALD MACKENZIE. Cambridge: MIT Press, 1996, 338 pp. $37.50.

Not for the technologically faint of heart, this volume contains provocative essays by one of the more interesting sociologists of modern technology. His central theme is the impact of organizations on technology creation. Rejecting notions of linear improvement or the inevitable unfolding of technological change, he points to the importance of unreasoning optimism, political pressure, and charismatic individuals. It is not always the case, as others have noted, that what wins is the optimal technology from a narrow scientific point of view. The author's wide scope ranges from a sympathetic analysis of Karl Marx's views on technology to a discussion of the role of self-propelling prophesy in the adoption of laser gyroscopes for aerial navigation. In short, his intellectual agility is as impressive as his observations are instructive.

Machine Beauty: Elegance and the Heart of Technology. BY DAVID HILLEL GELERNTER. New York: Basic Books, 1998, 160 pp. $21.00.

Great technology is beautiful technology, the author insists in this intriguing little book urging software programmers and computer designers to study art. Not so much about machines as about computers, this work culminates in an exploration of something called Lifestreams: a concept for personal computing developed at Gelernter's university, Yale, that would replace desktop computers. The term refers to a continuous flow of documents that people could dip into as they chose, from anywhere they wished. Gelernter emphasizes that the primary consideration in designing Lifestreams was aesthetic, not technological. Of even greater value to most readers than his discussion of information management is his retelling of the history of the personal computer. An intriguing if somewhat disorganized book by a brilliant polymath with a highly developed eye for form and beauty.

Western Europe

STANLEY HOFFMANN

I Will Bear Witness: A Diary of the Nazi Years, 1933–41. BY VICTOR KLEMPERER. New York: Random House, 1998, 519 pp. $29.95.

My German Question: Growing Up in Nazi Berlin. BY PETER GAY. New Haven: Yale University Press, 1998, 240 pp. $22.50.

Hitler's Exiles: Personal Stories of the Flight from Nazi Germany to America. EDITED BY MARK W. ANDERSON. New York: New Press, 1998, 354 pp. $30.00.

Three recent volumes look at what Nazism meant for its victims. The most impressive is Klemperer's story, revealing a remarkable man who sought sanity through his literary work, his autobiography, and his diary. A Jew converted to Protestantism, he taught French literature at Dresden Technical University from 1920 until his dismissal in 1935. His chronicle is fascinating, providing a meticulous account of a gradual descent into a hell composed of restrictions, humiliations, and exclusions. Amid growing isolation,

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he shows how Jews were deprived of resources, rights, and hope, especially after emigration became nearly impossible in 1939. Despite everything, Klemperer always saw himself as a German—or rather, as a German ex-nationalist and an anti-Zionist who opposed a Jewish state because he feared it would re-create nationalist excesses. His fascination with the language of the Third Reich and his account of a week in jail are particularly gripping. Although a few neighbors and students showed sympathy, his portrayal of general German attitudes is full of intense indignation—and certainly not so different from Daniel Goldhagen's thesis, despite what Martin Chalmers says in his informative preface.

Peter Gay's memoir recounts his years as a young Jew in Hitler's Germany and his attitude toward his native country after emigration in 1939. Gay and his family felt as German as the Klemperers and did not suffer much in the first five years of Hitler's rule. It was not until Kristallnacht in November 1938 that staying in Germany became unthinkable, Gay argues. One of his primary motives for writing this memoir was to explain why so many German Jews did not leave as soon as Hitler came to power. Gay leaves us with an account full of nuance and ambivalence.

In contrast, *Hitler's Exiles* is a collection of personal stories of Germans (not all Jews) who fled the Third Reich, offering a kaleidoscopic view of the changes in their lives after 1933 and the formidable obstacles blocking escape from Germany. It also provides varied and searing accounts of the pain of exile. Sometimes the destination countries, such as France, treated the émigrés badly, and integration often proved difficult and incomplete. The editor who brought together these diverse pieces deserves gratitude for producing a book that vividly illustrates the human side—and the bitter costs—of diaspora.

Germany's Second Chance: Truth, Justice and Democratization. BY ANNE SA'ADAH. Cambridge: Harvard University Press, 1998, 384 pp. $39.95.

After analyzing the politics of exclusion in revolutionary France, Sa'adah has now focused on the politics of inclusion and reconciliation in Germany after 1989. This rich and complex study dissects the problem of political trials by bringing in novels, individual cases, and comparative French, Czech, and German perspectives, contrasting the "institutional" with the "cultural" approach. The former limits punishment for crimes of the past to ensure political stability in the future, while the latter insists on punishing past sins and addressing the suffering of victims. Sa'adah argues for the institutional approach, which she sees as better at promoting reconciliation. However, she also acknowledges its drawback: an inability to create greater trustworthiness among citizens. Her account of eastern Germany after the fall of the Berlin Wall illustrates how difficult it is to find a satisfactory mix, especially during great political and cultural upheaval. And her conclusion—that democratic politics requires civility as well as bargaining—is just as valid for the United States today. A provocative and brilliant work.

Hitler, 1889–1936: Hubris. BY IAN KERSHAW. New York: W. W. Norton, 1999, 700 pp. $35.00.

The Hitler deluge continues. A British historian, Kershaw has produced the first

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huge volume of a two-volume biography of Hitler. In a brilliant introduction, he dismisses the issue of Hitler's "greatness" and explains that his focus is on Hitler's power—how he acquired it, how he exercised it, and why political resistance was so tame. Kershaw neglects the "private" Hitler and investigates instead the political and social context of the Nazi era, arguing that Hitler's main beliefs, especially his anti-Semitism, were crystallized during his years as a vagrant in Vienna and revived during World War I. In his eyes, Hitler's ascension to power was not inevitable. Rather, it resulted from the miscalculations of other politicians, Germany's flimsy democratic base, and the strands of a political culture that was peculiarly German. Hitler's egomania, fed by his successes after 1933, made hubris inevitable by 1936. Soon thereafter "nemesis" took over—the subject of Kershaw's forthcoming second volume. This is the kind of work that one is tempted to call definitive.

Blacklisted: A Journalist's Life in Central Europe. BY PAUL LENDVAI. New York: I. B. Tauris, 1998, 256 pp. $39.50.

Another autobiography that records man's inhumanity to man, this time in central Europe. In March 1944, the Nazis ordered Hungary's ruler and Hitler's ally, Admiral Horthy, to exterminate the Hungarian Jews. Thanks to his father, 14-year-old Paul Lendvai was spared the death march to Germany and obtained a protective Swiss passport. After Hitler's defeat, he joined the Social Democratic student group, a party even more radical than the Communists. He later became a Communist Party journalist and witnessed first hand the great political purges, including the trial of the former foreign minister Laszlo Rajk. In 1953, the government arrested Lendvai before releasing him when doomed reformer Imre Nagy became prime minister. After the failure of the October 1956 revolution, Lendvai fled to Vienna and worked for the *Financial Times* for many years. He later befriended the Austrian chancellor Bruno Kreisky and devotes a fine chapter to him in this account. This interesting memoir condemns "the Red and Brown dictatorships alike" and shows considerable generosity toward Austria.

The Social Democratic Moment: Ideas and Politics in the Making of Interwar Europe. BY SHERI BERMAN. Cambridge: Harvard University Press, 1998, 308 pp. $45.00.

A political scientist at Princeton, Berman compares the Swedish and German Social Democratic parties during the interwar period to explain their divergent fates. She argues that scholars should go beyond examining political and structural factors to account for the parties' fundamentally distinct approaches; it was opposing notions of socialism that made the critical difference. The Swedish party was reformist and flexible, with "a relatively mild view of the class struggle." In contrast, their German counterparts took a "strident" approach that was suspicious of reform, reluctant to embrace Keynesian solutions during the Depression, and inflexibly Marxist. All of these features, she argues, contributed to the collapse of the Weimar Republic. Her work is convincing and well written, and her discussion of the role of ideas is spirited and welcome. Chapter 2 should be required reading for all political scientists who are

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unwilling to look beyond numbers to see the force of ideas.

France Restored: Cold War Diplomacy and the Quest for Leadership in Europe, 1944–1954. BY WILLIAM I. HITCHCOCK. Chapel Hill: University of North Carolina Press, 1998, 291 pp. $49.95.

Foreign authors have generally been kinder to the Fourth Republic than have the French. In this careful analysis, Hitchcock is no exception to this rule as he argues that the Fourth Republic's diplomacy was a success story that built the foundation for General Charles de Gaulle. Despite some compromises and setbacks, France managed to block American designs and obliged the United States to pay attention to French demands. The Fourth Republic also launched the adventure of western European integration in a way that both reintegrated and contained the new Federal Republic of Germany while magnifying French influence in Europe. Although the regime suffered from fatal institutional weaknesses, Hitchcock maintains that the "faceless technocrats" who led it helped build a stronger and more stable France. He does not quite manage to make this case for the fierce debate over the European Defense Community and the war in Algeria, but his argument otherwise is convincing and subtle.

Goodness Beyond Virtue: Jacobins During the French Revolution. BY PATRICE L.R. HIGONNET. Cambridge: Harvard University Press, 1998, 416 pp. $24.95.

No aspect of the French Revolution has been more controversial than the Jacobins. Many historians, taking the cue of the late François Furet, see them as a pretotalitarian terrorist force, an omen of the horrors of the Bolshevik Revolution. Higonnet offers a scholarly, sweeping, and level-headed corrective to this orthodoxy. For him, the Jacobins were neither uniformly absolutist nor all that radical, but "ordinarily honest men of order . . . who had dedicated themselves to the application of universal rules of decency and common sense." The Terror was neither foreordained nor a response to circumstances; instead, it resulted from ingrained customs that ran counter to the Jacobins' own Enlightenment ideas. Individualism and private property, fraternity and community, goodness and decency, civic virtue and transparency all coexisted in the chaotic Jacobin universe. Deeply informed, compassionate, and fair, Higonnet's book has brought fresh scholarship, judicious reflections, and intriguing social comparisons to bear on this endlessly fascinating subject.

Western Hemisphere

KENNETH MAXWELL

In the Land of God and Man: Confronting our Sexual Culture. BY SILVANA PATERNOSTRO. New York: E. P. Dutton, 1998, 304 pp. $25.95.

This book is a revelation that stands out from the usual academic claptrap on gender. Paternostro interviewed doctors, sociologists, gay activists, transvestites, prostitutes, street kids, and wives throughout South America to confirm a startling fact: a housewife in Latin America has a higher risk of contracting AIDS than a prostitute does. In fact, 80 percent of female

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HIV-positive patients (mostly monogamous wives) were infected by their husbands, who often have unprotected sex with other men. While prostitution and male bisexuality are routine at every level of male society, women pay for their husbands' carelessness with their own lives. Paternostro paints vivid portraits of her native town and privileged upbringing in Colombia, the grubby municipal building in Rio de Janeiro where she buys pizza for street kids in exchange for stories about their clients, a Guatemalan family brought down by AIDS, and the Third Congress of Liberated Transvestites. With the skill of a novelist, the legwork of a good reporter, and the sober facts of a statistician, Paternostro has written a powerful and passionate indictment of Latin American sexual culture.

Rendering unto Caesar: The Catholic Church and the State in Latin America. BY ANTHONY JAMES GILL. Chicago: University of Chicago Press, 1998, 224 pp. $41.00.

Religious Politics in Latin America: Pentecostal vs. Catholic. BY BRIAN H. SMITH. Notre Dame: University of Notre Dame Press, 1998, 126 pp. $16.00.

Gill has written an original, challenging, and controversial book that investigates the evolution of the relationship between the state and the Roman Catholic Church in Latin America since the 1960s. Starting in Brazil, the church began criticizing not only the human rights violations of the ruling military regimes but also their underlying authoritarian systems. Gill rejects the argument that Vatican II and the famous 1968 conference of bishops at Medellín made a critical difference. Instead, he argues that the grassroots competition facing the church framed larger church-state relations; Marxism was not the only challenge. Both Protestant fundamentalism and spiritism gained adherents among the poor but were seen as less of a threat to the state. In Chile, where Pentecostalism was growing in popularity, the Catholic Church (which initially supported General Pinochet) became a stern critic of the regime and expanded its pastoral work for the poor. The Argentinean Church, in contrast, did not face a major challenge from below and found no trouble legitimizing the military governments in the 1960s and 1970s. In the more pluralistic religious and political landscape today, Gill sees new challenges: conflicting pressures of democracy and authority within the church, growing demands of its parishioners, and a continuing loss of popularity among its base.

In a broader overview of religion and politics in Latin America, Smith finds that a new generation of conservative bishops has continued to preach the social doctrine of the church while denouncing unfettered capitalism—despite Vatican efforts in the 1980s to curtail the intense

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social and political involvement of churches. Pentecostalism has become a significant force, especially among the poor, and even expanded its involvement in politics. Smith contends that Catholic-Pentecostal relations in issues such as church-state relations, divorce, abortion, homosexuality, and contraception actually complicate democratic politics by exacerbating tensions between both Catholic and fundamentalist Christians and the secular majority that seeks a more liberal social agenda. An excellent introduction to one of the most important but understudied aspects of contemporary Latin American life.

News from the End of the Earth: A Portrait of Chile. BY JOHN HICKMAN. New York: St. Martin's Press, 1998, 256 pp. $35.00.

A succinct and balanced account of Chile's recent history by the British ambassador to Santiago from 1982 to 1987. Rejecting leftist arguments that the United States played a major role in the bloody 1973 overthrow of the Allende government, Hickman focuses primarily on the Pinochet regime. He assesses the policies of the young, American-trained economists under General Pinochet who radically opened Chile's markets, reminding us that the early experiments met with major setbacks in late 1981–82 that brought the Chilean banking sector to the edge of ruin and forced the exchange rate to float. He also openly discusses Chile's role during the Falklands war, suggesting that the Pinochet regime aided Britain by providing intelligence on Argentina. In light of the recent arrest of Pinochet in London, Hickman's book is more timely than the author could ever have imagined—and perhaps more frank than he might have wanted. Most important, he praises the Rettig Commission on Truth and Reconciliation, established in 1990 by President Patricio Aylwin to investigate human rights abuses between 1973 and 1990. In Hickman's eyes, the report's findings—2,115 victims who had died or "disappeared" through agents of the state, 164 victims of political violence, and 641 unresolved cases—were abuses "for which the Chilean armed forces, including Pinochet himself, must accept responsibility."

The Shining Path: A History of the Millenarian War in Peru. BY GUSTAVO GORRITI. Chapel Hill: University of North Carolina Press, 1999, 279 pp. $60.00 (paper, $24.95).

First published in Spanish in 1990, Gustavo Gorriti's classic account of the Sendero Luminoso retains all its immediacy and explanatory power in this fine translation by Robin Kirk. Gorriti laid bare the brutal philosophy of the Sendero's mysterious leader, Abimael Guzman, who tried to implement Mao's Cultural Revolution to propel Peru into chaos. Both dogmatic sectarianism and horrifying violence converted a backwoods guerrilla movement into one of the most formidable threats to the Peruvian state ever. The ruthless Peruvian military reacted to the challenge just as Guzman had hoped, forcing innocent farmers, community leaders, police officers, and students to pay an awful price. By 1990, southern and central Peru was a wasteland, with 30,000 dead and 600,000 families homeless. But the Shining Path never

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seized power, and the power vacuum that the guerrillas and military had created was filled in 1990 by the newly elected Alberto Fujimori. Fujimori's iron rule successfully crushed the Shining Path once and for all, finally capturing Guzman and sentencing him to life in an island prison. A fine introduction to one of Latin America's most gruesome conflicts in recent years.

The Chiapas Rebellion: The Struggle for Land and Democracy. BY NEIL HARVEY. Durham: Duke University Press, 1998, 264 pp. $17.95 (paper).

Drawing on ten years of fieldwork in the southern Mexican state of Chiapas, Harvey has brought unusual depth to this exhaustive examination of the origins of the Zapatista uprising that stunned Mexico in January 1994. Combining a strong sense of history with a detailed examination of peasant and indigenous cultures, he sheds much light on the difficulties of local politics and the feasibility of satisfying Zapatista demands in contemporary Mexico. While he praises the rebellion for bringing attention to the rights of indigenous peoples and Mexico's incomplete democratization, he recognizes the serious risks involved—namely, the threat that ethnic Balkanization could pose to the territorial integrity of Mexico. The rebellion also deepened existing local conflicts in Chiapas by aggravating competition over municipal government, sparking violence and political polarization, and even preventing peaceful compromise. Essential reading on one of Mexico's greatest unresolved challenges.

Eastern Europe and Former Soviet Republics

ROBERT LEGVOLD

Russia under Western Eyes: From the Bronze Horseman to the Lenin Mausoleum. BY MARTIN E. MALIA. Cambridge: Harvard University Press, 1999, 480 pp. $35.00.

If the great unanswered question for Russia is whether to join the West, the reader will find no better book to explain the issues at stake. This is not because the author's controversial thesis—that Russia has been part of the West since Peter the Great and has nowhere else to go—is self-evidently correct. Instead, the book's merit is the brilliance with which Malia explores the intellectual and cultural links between Europe and Russia, from Voltaire to Nietzsche to Thomas Mann to Jean-Paul Sartre. When the West has gotten Russia wrong, as he believes it usually has, the reason resides less in Russia's mysteriousness and more in the emotional and intellectual needs of Western thinkers. Much of the book reintroduces the key currents in European thought, from the Enlightenment through twentieth-century fascism, viewed through the looking glass of Russia. Every page shimmers with compressed and polished insight. His analysis towers over the conventional wisdoms about Russia, including both those spun by Russians seeking solace in the uniqueness of Russia and those propagated by others who see Russia as alien to the West.

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Stealing the State: Control and Collapse in Soviet Institutions. BY STEPHEN LEE SOLNICK. Cambridge: Harvard University Press, 1998, 320 pp. $49.95.

A rigorous account of how the Soviet system fell apart. Using three different Soviet youth organizations as examples—the Komsomol, military conscription, and the job assignment program—Solnick illustrates how Mikhail Gorbachev's reforms rechanneled the self-seeking behavior of bureaucrats in directions that destroyed rather than revived Soviet institutions. He bases his compact and accessible explanation on recent general institutional theory. Seen from this angle, structures collapsed not because ideology failed, politicians quarreled, or interest groups rose to challenge sterile authority. Instead, the system imploded because bureaucrats at all levels made off with state assets at the first opportunity, hollowing out the state or "stealing" it. The theorizing may not be the average reader's cup of tea, but the underlying argument will fascinate most.

After the Collapse: Russia Seeks Its Place as a Great Power. BY DIMITRI K. SIMES. New York: Simon & Schuster, 1999, 288 pp. $25.00.

In this blend of memoir and essay, Simes, the director of the Nixon Center, reflects on the process that brought the Soviet Union down and the new Russia to its present battered state. His are strong opinions: on Nixon, favorable; on the Clinton administration's foreign policy, unfavorable; on Gorbachev, positive but qualified; and on Yeltsin, less positive but nuanced. Partly through his association with Nixon and partly on his own, Simes knows most of the key Russian figures in the story and many of the Americans, giving an added dimension to his account. This makes for interesting reading, but the book's most impressive portions come from the insights into Russia's plight and the challenges ahead—insights of one raised in Russia and well connected to its elite but no less well attuned to the United States, his adopted country.

Everyday Stalinism: Ordinary Life in Extraordinary Times: Soviet Russia in the 1930s. BY SHEILA FITZPATRICK. New York: Oxford University Press, 1999, 280 pp. $30.00.

One of the most influential historians of the Soviet period describes what it was like to live under Stalin in the 1930s—the frantic, heroic, tragic decade of collectivization, forced-draft industrialization, and purges, when ordinary Russians struggled to find a wearable pair of shoes and lined up in subzero weather at two o'clock in the morning in the hope of getting 16 grams of bread. Also in Fitzpatrick's portrait are workers harassed to emulate hero laborers, abandoned wives, neglected children, and the homeless—as well as the newly privileged and, at the other end, the families of political outcasts. They were years of unimaginable hardship and brutality but also of idealism, a surreal melange that she captures with admirable matter-of-factness. The residue of attitude and habit formed during these searing years survives to a surprising degree in our own day.

Kapitalizm: Russia's Struggle to Free Its Economy. BY ROSE BRADY. New Haven: Yale University Press, 1999, 320 pp. $30.00.

Collision and Collusion: The Strange Case of Western Aid to Eastern Europe, 1989–1998.

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BY JANINE R. WEDEL. New York: St. Martin's Press, 1998, 288 pp. $27.95.

Two impressive and informative accounts of the agonies of economic reform in Russia. Brady, *Business Week*'s former Moscow correspondent, takes the story back to the original plan of the economic reformers and traces its course through the early stages, particularly the privatization of massive state assets, to its present disarray. Skillfully employing wide-ranging interviews with policymakers, entrepreneurs, and experts, and making the most of her keen eye for human and social detail, she gives the reader an insider's view of where the process went awry and why so few have benefited.

Where Brady tends to be understanding of the brash young men who launched reform against great odds, anthropologist Wedel sees them as more scheming, even unsavory. She focuses on the role of outsiders in the reform process, including USAID and collaborators from Harvard. She marches the reader through this complicated interaction with ease, but most of the way wagging her finger at the Westerners, portrayed as imperious, shallow, and (in the Russian context) often disrespectful of their own countries' democratic values.

Middle East

L. CARL BROWN

Decade of Transition: Eisenhower, Kennedy, and the Origins of the American-Israeli Alliance. BY ABRAHAM BEN-ZVI. New York: Columbia University Press, 1998, 250 pp. $47.50 (paper $17.50).

Ben-Zvi takes aim at the accepted view that the American-Israeli alliance began with the Kennedy presidency. Instead, he sees its roots in the second term of the Eisenhower administration, when Israel began to appear more as an asset and less as a liability. Moreover, he maintains, all major U.S. decisions leading to this virtual partnership were based on strategic considerations, not domestic politics. This thesis appears strained. Israel's role in the 1958 Jordan crisis, which the author highlights as an example of closer cooperation with the United States, was quite marginal. It was the 1970 Jordan crisis that stimulated some U.S. policymakers to see Israel in a more favorable light. In any case, the quantum jump to closer U.S.-Israeli ties clearly came after both Eisenhower and Kennedy, during the Johnson presidency. Ben-Zvi's own narrative also makes clear that domestic considerations were indeed always present in America's Middle East policy. Better to read this as a well-researched reconstruction of U.S. diplomacy that persuasively shows how early U.S. policy toward Israel lacked punch by stinting on both carrots and sticks.

Countdown to Statehood: Palestinian State Formation in the West Bank and Gaza. BY HILLEL FRISCH. Albany: State University of New York Press, 1998, 221 pp. $59.50 (paper, $19.95).

Until the Madrid and Oslo agreements in the 1990s, the PLO leadership was exiled from the territory and people of their would-be Palestinian state. The challenge confronting the absent PLO leadership was whether to support institution-building in the occupied territories—for example, through education, social services, and

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local elections. That approach, however, ran the dual risks of either falling into permanent co-option into the Israeli polity or allowing a local leadership to develop that could replace the absent PLO hierarchy. Frisch shows how the PLO opted instead for tight control from the outside. As a result, he warns, Yasir Arafat and the PLO have brought an authoritarian, "neopatrimonial" system to the territories. Frisch compares the Palestinian experience with other state-building examples, especially the Zionist attempt to establish Israel. This comparison might appear invidious coming from an Israeli scholar, but Frisch aptly demonstrates that the Palestinians have faced more difficult obstacles than did the Zionists.

Women, the State, and Political Liberalization: Middle Eastern and North African Experiences. BY LAURIE A. BRAND. New York: Columbia University Press, 1998, 320 pp. $14.80 (paper).

Brand traces the fate of women during periods of political liberalization in three different Arab states: Morocco, Jordan, and Tunisia. The book offers a solid study of the politics of liberalization for each country, then follows with a history of the respective women's movements and an examination of women's political role during liberalizing phases. With comparative references to post-Soviet Eastern Europe and Latin America, her findings support the following conclusions: liberalization can actually enhance the power of the Islamists and other conservatives opposed to women's causes; women's political clout has been weakened by limited mobilizational muscle; and too many reforms affecting women have been top-down, state-directed efforts. Rich in empirical detail and well organized, this book should attract the attention of women's studies scholars as well as students of political liberalization.

Brother Against Brother: Violence and Extremism in Israeli Politics from Altalena *to the Rabin Assassination.* BY EHUD SPRINZAK. New York: Free Press, 1999, 384 pp. $27.50.

Sprinzak provides a comprehensive account of violent Israeli political behavior and extraparliamentary politics since the creation of the Israeli state. An excellent short appendix, "Violence, Political Violence, and Political Violence in Israel," offers an eight-part catalogue of political violence in this period. Sprinzak notes the many different sources of violence, including settlers in the occupied territories who pursue their own anti-Arab policy while dictating their demands to the government, Sephardic grievances against the Ashkenazim, the ultra-Orthodox resistance to all things secular, and movements such as the late Rabbi Meir Kahane's Kach. Chillingly effective are his accounts of the extremist rabbinical and nationalist ideologies that caused Yigal Amir (who assassinated Yitzhak Rabin) and Baruch Goldstein (who gunned down Muslim Arabs at prayer in Hebron) to believe that they were accomplishing religiously meritorious acts. Sprinzak plausibly argues that political violence in Israel has always been the work of a tiny minority and that Israelis are no more violent than the rest of the world, if not less so. The implicit message is

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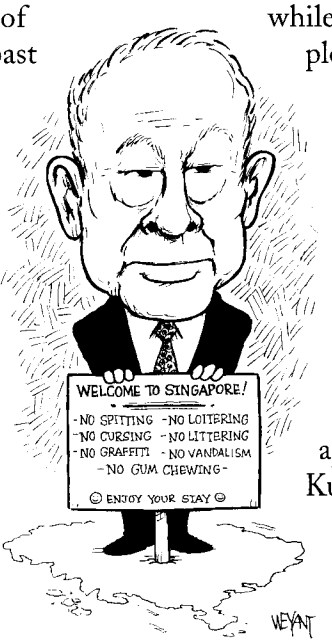
not that Israelis have dirty hands but that people in any polity must agree on shared values and rules.

Asia and the Pacific

LUCIAN W. PYE

The Challenge of Fundamentalism: Political Islam and the New World Disorder. BY BASSAM TIBI. Berkeley: University of California Press, 1998, 282 pp. $29.95.

Tibi sees Islamic fundamentalism as a dangerous totalitarian tendency that neither represents the Islamic faith nor appreciates Islamic history. At the same time, he distances himself from those who would paint Islam as the new post–Cold War menace to the West. Instead, he expresses empathy for those Muslims struggling against despotic states at home and against Western hegemony from abroad. Tibi presents his case while conducting a very personal discussion (and debate) with contemporary Western scholars, ranging from Jürgen Habermas to Samuel Huntington to specialists on Islam. He also weaves into his account the ideas of diverse Muslim thinkers, past and present. His discursive style is most easily followed by specialists, but all should relish chapters seven through nine, where he introduces the ideas of representative Muslim fundamentalists and exposes in cogent critiques their ahistorical and often tautological approaches. A liberal Muslim scholar teaching in Germany, Tibi radiates the mindset of the Western Enlightenment.



The Singapore Story: Memoirs of Lee Kuan Yew. BY LEE KUAN YEW. New York: Prentice Hall, 1998, 680 pp. $25.00.

One of Asia's most famous statesmen, Lee Kuan Yew has long been renowned for his crisp opinions and sharp analytical mind. With this first volume of his autobiography, he also establishes himself as an engaging storyteller. An outstanding student from a middle-class, English-speaking home, Lee's education was interrupted by the Japanese occupation in World War II. After a stint as a black-market entrepreneur during the war, he made his way to England following the Japanese surrender and convinced Cambridge University to admit him. Upon passing the British bar exams, he returned to Singapore and soon became enmeshed in the complex politics of independence while fighting—and sometimes exploiting—the Communist Party.

His story, told in vivid detail, focuses on his dream of uniting Singapore with Malaysia. Lee bitterly recounts his disappointment over Malaysian Prime Minister Tunku Abdul Rahman's decision to expell Singapore from Malaysia. While gracious toward the Tunku, Lee harshly appraises other politicians in Kuala Lumpur. His remarkably in-depth character analyses mean that volume two—which will describe a whole generation of world leaders—will

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command great interest. Possibly mindful of this prospect, 26 former presidents, secretaries of state, prime ministers, and foreign ministers have already provided blurbs of unstinting praise for Lee. The praise is well deserved; the readers will come away feeling that they have come to know an exceptionally brilliant political man.

The Chan's Great Continent: China in Western Minds. BY JONATHAN SPENCE. New York: W. W. Norton, 1998, 279 pp. $27.50.

Spence is unquestionably the best storyteller of all historians of China, and he never fails to come up with intriguing topics viewed from original perspectives. This time he recounts the image of China in the Western mind. From Marco Polo in the thirteenth century to Jesuit missionaries and Enlightenment philosophers to contemporary China-watchers, Spence shows how Western observers have used both positive and negative fantasies of Chinese civilization to reflect the state of Western civilization. For some, China was a superior civilization with elegant manners and ancient wisdom; for others it offered dark visions of cruel rulers and hordes of devious tricksters. Henry Kissinger was as awestruck on meeting Mao as Marco Polo was before Kublai Khan. Spence's interest is purely narrative; he relates his 48 "sightings" of China rather than advancing any theoretical or moral lessons. His fascination lies with each particular imagined China, not with potential conclusions for the Western mind—although China as a distant Other has clearly served multiple purposes for the Western psyche. Even today, exaggerated swings in U.S. policy toward China reflect American vacillation between images of a "good" and a "bad" China.

Forging Reform in China: The Fate of State-Owned Industry. BY EDWARD S. STEINFELD. New York: Cambridge University Press, 1998, 300 pp. $44.95.

Much has been written from a macroeconomic perspective about China's huge, inefficient, state-owned enterprises (SOEs), which drain banking resources and threaten to bring down the Chinese economy. In contrast, this is the first detailed microeconomic examination of the firms' management. Benefiting from remarkable access to three mammoth steel corporations, Steinfeld illustrates how the managers, confronted with an array of irrational constraints, make decisions that are logical from their perspective but disastrous for the economy. They may, for example, expand production of unneeded steel because they can use the numbers to borrow more from the state bank. Accountability is also missing: the enterprises are technically "state owned" but actually lack a clear "owner" because decentralization has meant that managers are not held liable to anyone. Efforts at privatization further confuse the ownership issue, while the general solutions for the SOEs proposed by both reform-minded Chinese officials and foreign observers will not work without far more fundamental changes. As no foreigner has ever had such access to the SOEs before, Steinfeld's report is ground-breaking for all who have an interest in the Chinese economy. The study also provides a solid basis for theorizing about more general issues in transition economics.

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Democracy in East Asia. EDITED BY LARRY DIAMOND AND MARC F. PLATTNER. Baltimore: Johns Hopkins University Press, 1998, 272 pp. $38.50 (paper, $14.95).

In this collective study, Asian and non-Asian authors debate the desirability of democracy in East Asia, an ideal (if sometimes contradictory) testing ground for theories about democratic transition. The experiences of Taiwan and South Korea suggest that economic development can set the stage for democracy, while Singapore and Malaysia seem to negate that theory. The region offers Japan as a model stable democracy, but also has four of the world's remaining Leninist states. On the Asian values controversy, Singaporean diplomat Bilahari Kausikan argues that Asia does indeed have unique political norms antithetical to Western individualism, while Hong Kong professor Joseph Chan roundly disagrees. The Americans, W. Theodore de Bary, Francis Fukuyama, and Robert Scalapino, explore the cultural foundations of Asian societies and classify their diverse political systems. In a book as full of clashing ideas as this one, it is not surprising that no coherent theoretical conclusion or neat summarization is possible. The two editors, however, do an excellent job introducing the issues, ideas, and approaches of the fifteen authors.

The Good Man of Nanking: The Diaries of John Rabe. EDITED BY ERWIN WICKERT (translated from the German by John E. Woods). New York: Alfred A. Knopf, 1998, 384 pp. $26.00.

This plainspoken diary of a remarkable German businessman makes vivid the horrors of the Japanese conquest of Nanking. It documents the looting, raping, and killing of civilians in what became known as the Rape of Nanking. John Rabe was the Siemens factory manager in the city when the Japanese Army began its rampage in December 1937. He quickly organized a protected zone that, against great odds, provided safe haven for some 250,000 Chinese civilians and ultimately saved their lives. He personally took 650 refugees into his own home and tried to convince the Japanese authorities to end their atrocities. A Nazi Party member, he even wrote to Hitler demanding that the Japanese government be told to stem its soldiers' awful conduct. Armed only with his German passport and a Nazi arm band, Rabe repeatedly stopped Japanese soldiers from raping Chinese women. He tells it all in a straightforward manner, with great modesty and compassion. And editor Erwin Wickert, who met him in 1936 while traveling in China, describes Rabe in his foreword in very human terms.

Africa

GAIL M. GERHART

Famine Crimes: Politics and the Disaster Industry in Africa. BY ALEX DE WAAL. Bloomington: Indiana University Press, 1998, 256 pp. $39.95 (paper, $16.95).

A powerful critique of the international humanitarian agencies dominating famine relief in Africa. Drawing on the work of economist Amartya Sen, the author argues that famine prevention requires a political contract that allows citizens to hold governments accountable for famine. Such a contract is rare in Africa, although most governments did

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recognize a political imperative to support their urban populations before the imposition of structural adjustment programs in the 1980s forced fiscal austerity. Today, international humanitarian agencies have unintentionally eliminated accountability by obliging Africans to cede responsibility for famine alleviation to foreign technical experts—who often fail to address the fundamental political causes of famine. Driven by narrow definitions of social responsibility and their own institutional interests, relief organizations make compromises that often strengthen authoritarian regimes, disempower victims, and debase humanitarian ideals by using crude media hype to compete for funds. The phony famine alert in eastern Zaire in November 1996, vividly described in chapter ten, lends weight to de Waal's provocative conclusion that "most current humanitarian activity in Africa is useless or damaging and should be abandoned."

Warlord Politics and African States. BY WILLIAM RENO. Boulder: Lynne Rienner, 1998, 269 pp. $52.00.

African states range from strong to weak, and weak ones can be grouped into those with valuable extractable resources and those without. This innovative study investigates warlord politics in weak states with rich endowments: Liberia, Sierra Leone, and the former Zaire, with Nigeria as a potential candidate. Reno argues that the new post–Cold War environment has forced weak-state rulers to revise their political calculus. Told by creditors to trim bloated bureaucracies and privatize public-sector companies, they dismantle old patronage networks and form new alliances with compliant, often buccaneering foreign firms. In turn, these firms become surrogate providers of bureaucratic services (especially security) in the enclaves where diamonds, cobalt, timber, or other valuable resources are extracted. Politics becomes a simple process of asset-stripping, and less-endowed regions are left to stagnate. Since research on warlord activity is difficult, some of Reno's conclusions rest on shaky evidence. Nevertheless, he makes a serious effort to challenge conventional wisdom about failed states and the virtues of free markets and small government.

King Leopold's Ghost: A Story of Greed, Terror, and Heroism in Colonial Africa. BY ADAM HOCHSCHILD. New York: Houghton Mifflin, 1998, 384 pp. $26.00.

The story of Belgian depredations in the Congo under King Leopold II has been told before, but Hochschild has assembled the most remarkable facts and dramatis personae, added a keen appreciation for socio-political nuances in turn-of-the-century Europe and America, and produced a splendid new popular history. Henry Morton Stanley's megalomania and Leopold's hypocrisy and greed get their due, but what most inspires Hochschild is the international crusade for reform that compelled Leopold to relinquish his personal claim to the Congo Free State, "the first major international human rights movement of the twentieth century."

We Wish to Inform You That Tomorrow We Will Be Killed With Our Families: Stories from Rwanda. BY PHILIP GOUREVITCH. New York: Farrar, Straus & Giroux, 1998, 384 pp. $25.00.

An admirable addition to the growing literature on the Rwandan genocide of 1994. Gourevitch, a journalist who reported on Rwanda for *The New Yorker*, began

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interviewing survivors within a year of the cataclysm, seeking to explain its effects as well as its causes. His account ends with the Rwandan-backed overthrow of Zaire's Mobutu Sese Seko in 1997 and the first feeble efforts to bring the genocide's prime architects to justice through an international tribunal. Amid the horror, it would be comforting had Gourevitch found any evidence of lessons learned by the killers or their accomplices-in-indifference, the United Nations and the Western powers, but such evidence is conspicuously lacking. Gourevitch admires Rwanda's decisive new leader, Paul Kagame, but avoids making any rosy predictions about the country's future.

"Prohibited Persons:" Abuse of Undocumented Migrants, Asylum Seekers, and Refugees in South Africa. BY HUMAN RIGHTS WATCH. New York: Human Rights Watch, 1998, 236 pp. $15.00 (paper).

Although South Africa now boasts one of the world's most progressive constitutions, political pressures and rising xenophobia have stalled reform of the country's outdated (and often inhumane) laws on migrants and refugees. This careful study documents widespread violations of the rights of migrant workers—200,000 of whom were deported in 1997—and the abusive conditions that so-called illegal aliens encounter prior to deportation. The report offers sound recommendations for reform, although most are unlikely to be implemented until after South Africa's 1999 national elections—if then.

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Letters to the Editor

Paul Wolfowitz and Stephen Solarz and others on ousting Saddam; Kenneth Roth on the International Criminal Court; the National Association of Manufacturers defends itself; and others

HOW TO OVERTHROW SADDAM

To the Editor:

It is wrong to dismiss criticism of America's current Iraq policy as partisan, just as it would have been wrong to dismiss opposition to the Gulf War as mere politics ("The Rollback Fantasy," January/February 1999). Many Democrats in Congress supported President Bush's decision to go to war. Daniel Byman, Kenneth Pollack, and Gideon Rose do not advance serious discussion of Iraq policy by portraying those of us who advocate more forceful U.S. action as "cynically playing politics." While they take pains to point out the Republican affiliations of many former officials who have signed letters to the president on Iraq, the authors neglect to mention that the coauthor of one of those letters (and of this one) is a Democratic former congressman. They also do not mention that Democratic Senators Robert Kerrey (Neb.), John Kerry (Mass.), and Joseph Lieberman (Conn.) have prominently taken the same position. Finally, they ignore the fact that the Iraq Liberation Act passed by overwhelming bipartisan majorities in both houses of Congress.

It should be made clear that our views do not correspond with those of the unnamed "many advocates" who, according to the authors, contend that Saddam Hussein could be replaced "at relatively low cost—even . . . without committing American ground troops." Overthrowing Saddam would be a formidable undertaking, not one without problems and perils. But the risks of the gradual collapse of current U.S. policy are worse. The United States should be prepared to commit ground forces to protect a sanctuary in southern Iraq where the opposition could safely mobilize.

The authors critique three "strategies" for overthrowing Saddam, none of which resembles what we would consider a serious approach—although such an approach would incorporate elements of each. A serious strategy would be based on the notion that if the United States demonstrated a readiness to more strongly support the forces of rebellion—with military action if necessary—those forces would prove much stronger and the Iraqi regime much weaker than they are today. Saddam has lost substantial control of northern Iraq because of very modest American efforts; a much stronger push in the south could produce significant results.

An effort to overthrow Saddam would not begin, as the authors suggest, by attempting to seize and hold a vast area of southern Iraq with 10,000–20,000 lightly armed opposition troops, in the face of Saddam's forces and without U.S.

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military intervention. Rather, it would start with limited objectives and the much more direct commitment of U.S. force and would develop depending on how resistance spread and whether Saddam's troops stayed loyal. These factors cannot be known in advance. The possibility of serious internal opposition cannot be dismissed with the categorical assurance of Byman, Pollack, and Rose.

One should not underestimate one's opponents or overestimate one's friends. The authors do the opposite. They overstate the analogy with Cuba, where U.S. planners were surprised by the absence of popular opposition to Fidel Castro. The more relevant experience is that of Iraq itself, where U.S. policymakers were surprised by the extent of the popular post–Gulf War uprisings against Saddam and where dissatisfaction with his regime is still widespread.

The authors exaggerate Saddam's strength. They base their calculations of the airpower needed to free Iraq on the assumption that Iraqi divisions would march blindly, one after another, into the bombs of the U.S. Air Force. Theoretically this might happen, but during Operation Provide Comfort the Iraqi army surrendered the northern third of the country to a small U.S. ground force and lightly armed Kurdish guerrillas because they had lost the stomach to fight.

Assuming the worst case—about opposition strength or regime weakness—can produce better plans for dealing with those outcomes. But it can also paralyze, as it did in Bosnia. Mistakenly believing that the Serbs were too strong and the opposition too weak for U.S. intervention to make a difference led to three long years of inaction and thousands of unnecessary deaths. Besides, to be consistent, the authors should apply a worst-case analysis to their preferred policy of containment. If that collapses—or when it collapses—the United States will face a Saddam who has new nuclear, biological, and chemical weapons and a renewed capacity to conduct conventional warfare and terrorism, and who is bent on avenging his 1991 defeat. That would risk many more lives than trying to overthrow Saddam by force.

Neither side of this debate has a monopoly on responsible judgment; neither course of action is free from significant dangers. On balance, however, containment entails much greater long-term risks than using force to help the Iraqi people rid themselves and us of this tyrannical menace.

STEPHEN J. SOLARZ
President, Solarz Associates, and Former Democratic Member of the House Foreign Affairs Committee
PAUL WOLFOWITZ
Dean, Paul H. Nitze School of Advanced International Studies, Johns Hopkins University, and Under Secretary of Defense in the Bush Administration

To the Editor:

Byman, Pollack, and Rose inject some realism into the cavalier debate about removing Saddam Hussein. Their observation that rollback would likely lead to an Iraqi Bay of Pigs brings to mind another foreign policy debacle from the Kennedy years—the November 1963 assassination of South Vietnam's leader, Ngo Dinh Diem.

Although the analogy is not exact, the implications of a U.S.-backed overthrow are similar to those faced by President Kennedy 35 years ago. After Diem was

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overthrown in an action indirectly supported by the United States, South Vietnam fell into chaos. The administration had promoted a coup so that Diem would be replaced by, in McGeorge Bundy's words, "responsible leadership." But Saigon never found stability. From 1964 to 1965 alone, the South Vietnamese government changed hands five times.

But most important is what Diem's overthrow meant for America's commitment to Vietnam. The Kennedy administration's complicity made the United States responsible for successive Saigon governments. As William Bundy later reflected, Diem's death meant that all Americans felt "more responsible for what happened in Vietnam." General William Westmoreland argued that the action "morally locked" the United States into Saigon. "Were it not for our interference," he wrote, America "could [have] justifiably withdrawn [its] support."

The moral of the Diem story is clear: Once one gets into the business of deciding who leads a country, it is very difficult to get out. Three decades ago, President Johnson grappled with whether the United States could walk away from South Vietnam after supporting the overthrow of its leader. Today, those who advocate U.S. action to remove Saddam must acknowledge the same issues of commitment and responsibility. Ousting Saddam is not a short-term solution—once he is gone, the United States will be expected to help provide stability until a viable Iraqi regime is in place. At best, this will mean years of money and assistance to Baghdad; at worst, it will mean involvement in an Iraqi civil war. If Saddam is taken out tomorrow, are the American people and their leaders prepared to meet the consequences? The administration and those who support the Iraq Liberation Act should carefully consider these questions. And let us hope that Clinton leaves his successor a better hand in Iraq than Kennedy left Johnson in Vietnam.

DEREK CHOLLET
President's Fellow in Political Science, Columbia University

To the Editor:

Byman, Pollack, and Rose employ gratuitously caustic language to disparage various proposals to overthrow Saddam Hussein. The authors use invective to attack not just the reasoning of the overthrow-Saddam school, but their motives as well.

Because of the Baghdad regime's brutal repression, neither think-tank scholars nor intelligence analysts really know much about goings-on in Iraq. Could U.S. actions trigger another uprising or cause the Iraqi army to abandon Saddam? The only reasonable answer is "maybe." After all, who expected millions of Iraqis to rebel in the aftermath of Operation Desert Storm? Peering into the clouded crystal ball of contemporary Iraq demands both a degree of humility in advocating policy preferences and an openness to alternatives. This article unfortunately lacks both.

Moreover, the authors should have more fully acknowledged the challenges facing "limited containment." Their hopes that such a policy "would help keep [Saddam] off balance and boxed in even if sanctions and other current components of containment continue to erode" seem, to say the least, sanguine.

Finally, the authors state that the United States should provide limited

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support to the opposition in order to "leave options open for the United States should conditions somehow change—after, say, an internal revolt in Basra or another major city." Is it not possible that under such circumstances, one of the three rollback strategies that the authors reject might be viable? If so, to dismiss them as leading inexorably to a Bay of Pigs and thereby close off all debate is both rash and unwise.

ROBERT SATLOFF
Executive Director, Washington Institute for Near East Policy
PATRICK CLAWSON
Director of Research, Washington Institute for Near East Policy
MICHAEL EISENSTADT
Senior Fellow, Washington Institute for Near East Policy

ROMAN COMPROMISE

To the Editor:

Ruth Wedgwood wisely suggests that the Clinton administration adopt an attitude of "benign abstention" rather than actively oppose the International Criminal Court ("Fiddling in Rome," November/December 1998). (Given the mood in Washington, active support seems out of the question.) But Wedgwood unfairly accuses "like-minded" governments and their allies of intransigence, claiming that "nongovernmental organizations bluntly eschewed compromise, overlooking the need to reassure responsible military leaders."

In fact, ICC supporters made many compromises to meet U.S. concerns, refusing only to exempt American citizens from the court's jurisdiction. No court should breach the basic principle that justice applies equally to all. But these concessions should let the Clinton administration follow Wedgwood's advice. Some examples include the following:

- Although the ICC will assume jurisdiction only if national courts are unable or unwilling to do so, U.S. negotiators feared that the ICC might proceed against an American before domestic courts had a chance to act. Supporters of the ICC thus accepted a U.S. proposal requiring the court to give national courts ample opportunity before it takes up a case.
- The United States feared that ICC prosecutors authorized to bring cases on their own might file frivolous charges against Americans. The ICC treaty thus states that no prosecutor-initiated investigation can proceed until a judicial panel positively assesses its merits.
- The United States feared that its military commanders would be vulnerable to prosecution under international laws prohibiting attacks that cause disproportionate harm to civilians. The court's supporters accepted an American rewriting of the law that makes it far more difficult to find such harm.
- The United States wanted to ratify the court's treaty but opt out of its jurisdiction over war crimes for ten years. This would enable governments to gain confidence in ICC handling of these sensitive cases. The ICC's supporters accepted a seven-year opt-out period.
- The United States wanted advance U.N. Security Council approval of any ICC prosecution. Ostensibly, this was to preclude conflicts between the ICC's pursuit of justice and the Security Council's pursuit of peace, but it also would have allowed the United States to block any American's prosecution. The ICC will allow the Security Council to halt prosecutions

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but not to hold the sole key to authorizing them. Genuine conflicts between peace and justice can be handled by nine Security Council members and the acquiescence of all five permanent members, but no single permanent member can veto a prosecution.

• The United States feared that the ICC might prosecute legitimate military action as aggression. But the treaty stipulates that such prosecutions will not be possible until seven out of eight governments ratifying the treaty agree to a definition of aggression. The only definition that could conceivably gain such broad support would be allowing the Security Council to determine when aggression has occurred, meaning that the United States could stop any prosecution it deemed inappropriate.

• The United States wanted the unconditional right to withhold any information that might compromise "national security." Despite a popular British proposal that would have required such claims to be made in good faith, the U.S. position prevailed.

True, the court's supporters did not give in on everything. They rejected a U.S. request that governments be allowed to opt out of the ICC's jurisdiction over crimes against humanity. But it is unthinkable that U.S. forces would carry out the systematic or widespread pattern of severe repression that prosecution for such crimes requires.

The ICC's supporters also refused to limit the court's jurisdiction to people whose countries have ratified the treaty or prosecutions that the Security Council has referred. Having already compromised the court's jurisdictional scope in a futile effort to secure U.S. support, they saw this demand as a final attempt to exempt Americans. For the same reason, they turned down a U.S. request that governments be allowed to exempt crimes from ICC jurisdiction (absent Security Council action) by declaring them acts of state.

Given the many compromises made in Rome, these sticking points hardly demonstrate ICC supporters' intransigence. And given the importance of the principle of equal justice for all, they should give no justification to those Americans who would oppose this historic institution.

KENNETH ROTH
Executive Director, Human Rights Watch

To the Editor:

Wedgwood both underestimates the ICC's flaws and overstates the potential to fix them. The ICC will exercise power without accountability and is thus inconsistent with the most fundamental American principles. It presents a real and present threat to U.S. national interests.

Wedgwood's sources of comfort are illusory. Although the court is supposed to become involved only in the most serious, large-scale cases and to defer to domestic courts, it is entirely up to the court to determine whether a particular incident is significant enough and whether a state has acted in good faith. The court combines in a single institution the powers of policeman, prosecutor, judge, jury, and jailer.

Wedgwood's prescription is even less comforting. She does not dispute the court's serious structural defects but suggests that they may be cured by responsible leadership. If the prosecutors and judges behave themselves in the early years, then the United States can join the ICC treaty. This injunction calls to mind the quaint prayers of a bygone

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age: "Oh God, send us a good king." God, unfortunately, does not always send good kings. The fundamentally American contribution to statecraft is the realization that individual rights and liberties are not safe in any system where power is limited only by the good nature, good faith, or good intentions of those who run it.

The ICC would exercise the most basic government functions with no external check upon its power. Any court limits would depend entirely on individuals. Not so very long ago this was called despotism. Perhaps in this case it would be in a good cause, but an enlightened despot is no less of one. That a sober and responsible leadership might guide the ICC through its early years should give little comfort; systems that begin with an Augustus will in time produce a Nero.

To be true to its principles and national interests, the United States should actively obstruct the ICC's establishment and operation. The court's basis in international law—particularly its claims to exercise jurisdiction over the citizens of nonparty states—is shaky. By challenging the legality of the court and starving it of resources, the United States can successfully protect its citizens.

DAVID B. RIVKIN, JR.
Partner, Hunton & Williams
LEE A. CASEY
Associate, Hunton & Williams

THERE ARE STILL 35

To the Editor:

Jesse Helms claims that there has been no "sanctions frenzy" and that from 1993 to 1996 only 9 new sanctions were adopted, not the 61 cited by the National Association of Manufacturers' recent report ("What Sanctions Epidemic?" January/February 1999). He accuses the NAM of presenting "grossly inflated" numbers that badly mislead the public. Helms gets the facts wrong and misses our point. Unilateral sanctions, whether numbering 1 or 61, ought to be effective when they are used. American businesses are upset by their frequency and cost but are even more upset by their ineffectiveness. Using trade as a key diplomatic instrument—"foreign policy lite"—will disappoint.

The NAM study details three categories of economic sanctions: those that cut off trade and investment, those that make it hard to export American-made products, and those that discourage economic development. To argue that there is no sanctions epidemic, Helms uses the narrowest definition for a "unilateral economic sanction"—a total economic embargo. Using this definition, Helms claims that from 1993 to 1996 the president imposed just four new sanctions—on Sudan, China, Cuba, and Iran. But this is wrong. Other new sanctions included the decertification of Colombia, Nigeria, and Afghanistan for their inadequate drug control efforts (which made them ineligible for most U.S. foreign aid, loans, and insurance), and the discontinuation of the Overseas Private Investment Corporation's programs in Saudi Arabia, Qatar, and the United Arab Emirates because they did not afford adequate workers' rights.

Helms accuses the NAM of "multiple counting of the same sanctions," but the report made it clear when a new sanction only added to existing measures. And this does not change the total number (35) of sanctioned countries. Helms also argues that sanctions imposed in compliance with

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U.N. Security Council resolutions are not unilateral. Although this is true, in four out of the five cases, the United States unilaterally imposed broader sanctions than required.

The NAM report is consistent with other authoritative studies. A January 1998 Congressional Research Service report cites 125 measures authorizing unilateral U.S. economic sanctions, targeting 30 countries. If one adds up the populations of countries now under significant U.S. sanctions, including China, India, Pakistan, Burma, North Korea, Iran, Iraq, Syria, Libya, Sudan, and Cuba, one gets 2.5 billion people—42 percent of the world. And that is without counting people in countries under more targeted sanctions.

What the NAM study uncovered was really just the tip of the iceberg. First, the report covered only sanctions imposed between 1993 and 1996, not all sanctions currently in force. Second, the list of sanctioned countries did not include all those affected by secondary boycotts (for example, the Helms-Burton Act and the Iran-Libya Sanctions Act). Finally, it did not include the dozens of sanctions at state and local levels.

The NAM study acknowledges that U.S. unilateral economic sanctions occasionally work, but those instances are rare. According to a 1992 Institute for International Economics study, they are effective less than 20 percent of the time and then are usually accompanied by military action. Among the "effective" sanctions that Helms cites is the Nuclear Proliferation Prevention Act of 1994, designed to stop potential nuclear powers. But within four years both India and Pakistan tested nuclear weapons, clearly undeterred by the threat of unilateral U.S. sanctions.

Still, the United States must continue to work to prevent terrorism, human rights violations, and the spread of weapons of mass destruction. The NAM report carefully considered situations where multilateral sanctions might be more effective than unilateral measures. After all, national security is not protected when goods, technologies, or investments are readily available from competitors in other countries. The NAM study suggests that certain conditions be satisfied before unilateral sanctions are imposed, including a determination that the measure reflects broad national interests.

In the end, Helms misses the point. Major commercial relationships cannot be turned on and off like lights. Unilateral U.S. sanctions are ineffective and costly, and relying on trade to accomplish foreign policy objectives will only hurt America's growth and prosperity.

MARINO MARCICH
Director, International Investment and Finance, National Association of Manufacturers

MORE MEANS LESS

To the Editor:

David D. Hale presents an apt defense of the International Monetary Fund ("The IMF, Now More than Ever," November/December 1998). The West has such a huge stake in successful Russian economic reform that offering billions of dollars to strengthen government reformers was a wise gamble even if the odds of success were poor.

But the IMF should not have been the conduit for that money. The Russian loan's chances of succeeding

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were far below the IMF's normal criteria. For the fund, the costs of failure go far beyond the lost money and strike at the core of the IMF's effectiveness. The IMF's most valuable asset is not its money but its seal of approval, which can unlock much more private money than the IMF provides. But using the IMF for geopolitical objectives undercuts the credibility of this crucial signaling function.

Why did the IMF risk its reputation? Because of pressure from Western leaders who wanted to avoid the domestic opposition they would have met if they had done the right thing: providing funding directly through the G-7. The recent congressional debates on IMF funding highlighted the dangers of overloading the fund with ideological agendas. Using the IMF for too many purposes will assure that it achieves none.

THOMAS D. WILLETT
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RIGHTEOUS WRONG

To the Editor:

William Wallace and Jan Zielonka write, "'Everyone knows that the United States is a righteous nation,' Joshua Muravchik of the American Enterprise Institute boldly declared to a surprised European audience" ("Misunderstanding Europe," November/December 1998). Being quoted in *Foreign Affairs* is always an honor, but it would be even more so if I had actually said the quote.

The authors said that they found the quote in a William Pfaff column in the *International Herald Tribune* last summer. Pfaff, I discovered, indeed wrote something like that, although he had put only "everyone knows" and "righteous nation" in quotes. Pfaff claimed to be repeating a quote he used in a 1996 column. That column did not contain the words "everyone knows" but it did contain "righteous nation," quoting from my book *The Imperative of American Leadership*. I did not write, however, that America was a "righteous nation"—an odd term—but quoted Lincoln's aphorism that "right makes might" and then speculated about what might make a "righteous nation" mighty.

In sum, Pfaff misrepresented my book in his first column and embellished it in a second before Wallace and Zielonka amplified it further. To top it off, they gave it immediacy by adding "a surprised European audience," which is sheer invention; the misquote's original source was my book.

To set the record straight: I have often written that other nations generally welcome the American presence in their regions because America is a nonimperial nation and they do not fear that it will subjugate them.

JOSHUA MURAVCHIK
Resident Scholar, American Enterprise Institute for Public Policy Research

UNWITTING EVIDENCE

To the Editor:

In his review of my book *Who Speaks for America? Why Democracy Matters in Foreign Policy*, David C. Hendrickson writes that I argue "American democracy is a sham, its government and foreign policy controlled by self-appointed elites who

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rule in the interests of their corporate paymasters" ("Recent Books on International Relations," November/December 1998).

Hendrickson is confused, as I argue no such thing. As Mark A. Uhlig, a former associate editor of *Foreign Affairs*, noted in *The New York Times Book Review*, "[Alterman] portrays the lack of public involvement as a product of deep historical trends that over two centuries have caused the progressive divorce of average Americans from the foreign policy process. . . . [He] ascribes the disenfranchisement of the public to several factors. Most prominent among these, he argues, has been the inexorable expansion of executive power, together with corporate attempts to champion free trade at the expense of working-class interests and the exigencies of the Cold War."

Following his first mistaken sentence, Hendrickson devotes the rest of his review to exactly 12 pages of my book, only to mock them as well. Talk about "unwitting evidence" for my argument regarding the elitist proclivities of the foreign policy establishment—I must have really hit a nerve.

ERIC ALTERMAN

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